

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Ironwood, Michigan	County Gogebic
Fiscal Year End June 30, 2006	Opinion Date November 3, 2006	Date Audit Report Submitted to State November 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not needed	
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Joki, Makela & Pollack, PLLC		Telephone Number 906-932-4430	
Street Address 301 N. Suffolk Street		City Ironwood	State MI
		Zip 49938	
Authorizing CPA Signature <i>Dean Beaudoin CPA</i>		Printed Name Dean R. Beaudoin	
		License Number 1101014194	

CONTENTS

Audited Financial Statements:	
Independent Auditor's Report	Page 4
Management's Discussion and Analysis	6
Primary Government Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	18
Fund Financial Statements:	
Combined Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	21
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds with the Statement of Activities	23
Proprietary Funds:	
Combined Statement of Net Assets	24
Combined Statement of Revenues, Expenses and Changes in Net Assets	26
Combined Statement of Cash Flows	27
Combined Statement of Fiduciary Net Assets – Fiduciary Funds	29
Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	30
Notes to Financial Statements	32
Required Supplemental Information:	
Budgetary Comparison Schedule – Major Governmental Funds	79
Other Financial Information:	
General Fund:	
Balance Sheet	82
Statement of Revenues - Estimated and Actual	83
Statement of Appropriations and Expenditures	85

CONTENTS (CONTINUED)

Other Financial Information (Continued):

Nonmajor Governmental Funds:

Combining Balance Sheet	87
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	89

Pension Trust Funds:

Combining Statement of Plan Net Assets	91
Combining Statement of Changes in Plan Net Assets	92

Retiree Healthcare Fund – Statement of Changes in Plan Net Assets	93
---	----

Trust and Agency Fund – Statement of Changes in Assets and Liabilities –

Current Tax Collection Fund	94
-----------------------------------	----

Schedule of Expenditures of Federal Awards	95
--	----

Notes to Schedule of Expenditures of Federal Awards	96
---	----

Statement of Application of Block Grant Funds:

Grant No. MSC – 2004-0072NPP.....	97
-----------------------------------	----

Grant No. MSC – 204047PW	98
--------------------------------	----

Grant No. MSC – 2004-0072HO	99
-----------------------------------	----

Supplemental Reports:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1
---	-----

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	B-1
---	-----

Schedule of Findings and Questioned Costs	C-1
---	-----

Summary Schedule of Prior Audit Findings	C-2
--	-----

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

301 N. SUFFOLK STREET

IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS

TELEPHONE
906-932-4430
FAX
906-932-0677
EMAIL
jmp@ironwoodcpa.com

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Commissioners
City of Ironwood, Michigan
Ironwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Ironwood, Michigan as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of City of Ironwood, Michigan's primary government, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Ironwood, Michigan, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City of Ironwood, Michigan's legal entity. The financial statements do not include financial data for the City's legally separate component unit, the Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Ironwood, Michigan, as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of City of Ironwood, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable; thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2006, on our consideration of City of Ironwood, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 14 and pages 79 and 80 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ironwood, Michigan's primary government basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Statements of Application of Block Grant Funds are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and by U.S. Department of Housing and Urban Development and are also not a required part of the basic financial statements of City of Ironwood, Michigan. The Other Financial Information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the statements of application of block grant funds has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the years ended June 30, 2004, 2005 and 2006, and, in our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Toti, Mahala & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

Management's Discussion and Analysis

This section of the City of Ironwood, Michigan's (City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended June 30, 2006. It is to be read in conjunction with the City's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2006.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the City as a whole. The statements are prepared using the accrual method of accounting which is the accounting method used by most private sector businesses. The statement of net assets includes all of the City's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental and business-type activities of the City that include all services performed by the City.

The statement of net assets shows the City's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets or deficit of the City. A deficit occurs when there are more liabilities than there are assets to pay those liabilities. This statement measures the financial strength of the City; the greater the net asset figure, the healthier the financial position of the City generally is. It helps management determine if the City will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expenditure basis. It generally shows the operating results for a given year of the City. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the City.

Fund Financial Statements

The City's fund financial statements show detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Major Street Fund, Local Street Fund, Neighborhood Preservation Program Fund, Water Utility Fund, Sewer Utility Fund and Internal Service Fund. All other funds are considered nonmajor and are reported as one column.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements (Continued)

Governmental funds are reported in the fund financial statements and contain the same functions reported as governmental activities in the government-wide financial statements. However, the fund statements provide a different view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to the government-wide financial statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds include the same functions reported as business-type activities in government-wide financial statements. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Because the City's internal service funds primarily serve other City functions, they are included within the governmental activities of the government-wide financial statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds such as the employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund City programs. Fiduciary fund financial statements report similarly to proprietary funds.

Government-wide Financial Statements – Condensed Financial Information

Statement of Net Assets

The following are condensed statements of net assets with a detailed analysis of the statements below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	June 30, 2006		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 1,686,622	\$ 167,178	\$ 1,853,800
Receivables	648,027	183,528	831,555
Current portion of notes receivable	65,586		65,586
Other current assets	<u>225,469</u>	<u>101,137</u>	<u>326,606</u>
Total Current Assets	\$ 2,625,704	\$ 451,843	\$ 3,077,547
Noncurrent Assets:			
Notes receivable, net of current portion	\$ 819,683		\$ 819,683
Restricted cash	28,956	\$ 259,857	288,813
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		41,168	41,168
Capital assets, net of accumulated depreciation	<u>5,261,448</u>	<u>6,853,860</u>	<u>12,115,308</u>
Total Noncurrent Assets	\$ 6,110,087	\$ 9,784,401	\$ 15,894,488
Total Assets	\$ 8,735,791	\$ 10,236,244	\$ 18,972,035
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 172,309	\$ 83,464	\$ 255,773
Deferred revenues and deposits	320,000	19,887	339,887
Other current liabilities	136,393	32,252	168,645
Current portion of long-term liabilities	<u>289,700</u>	<u>141,863</u>	<u>431,563</u>
Total Current Liabilities	\$ 918,402	\$ 277,466	\$ 1,195,868
Long-term liabilities (net of current portion):			
Compensated absences	\$ 527,915	\$ 184,609	\$ 712,524
Bonds, notes and contracts payable	<u>1,848,253</u>	<u>1,823,615</u>	<u>3,671,868</u>
	<u>\$ 2,376,168</u>	<u>\$ 2,008,224</u>	<u>\$ 4,384,392</u>
Total Liabilities	\$ 3,294,570	\$ 2,285,690	\$ 5,580,260

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>June 30, 2006</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,135,855	\$ 4,888,382	\$ 8,024,237
Restricted	61,629	259,857	321,486
Unrestricted	<u>2,243,737</u>	<u>2,802,315</u>	<u>5,046,052</u>
Total Net Assets	<u>\$ 5,441,221</u>	<u>\$ 7,950,554</u>	<u>\$ 13,391,775</u>

The City's net assets are \$13,391,775 at June 30, 2006. Capital assets, net of related debt are \$8,024,237. This figure is derived by taking the original costs of the City's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets. There were no infrastructure assets capitalized by the City during the year ended June 30, 2006.

Restricted net assets are restricted for debt service. The unrestricted net assets are \$5,046,052 as of June 30, 2006. This is the net accumulated results of the current and past years' operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>June 30, 2005</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Current Assets:			
Cash and investments	\$ 1,420,321	\$ 158,008	\$ 1,578,329
Receivables	653,954	168,075	822,029
Current portion of notes receivable	59,140		59,140
Other current assets	<u>330,464</u>	<u>56,574</u>	<u>387,038</u>
Total Current Assets	\$ 2,463,879	\$ 382,657	\$ 2,846,536
Noncurrent Assets:			
Notes receivable, net of current portion	\$ 855,126		\$ 855,126
Restricted cash	26,715	\$ 254,453	281,168
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Other noncurrent assets		40,002	40,002
Capital assets, net of accumulated depreciation	<u>5,472,353</u>	<u>6,566,609</u>	<u>12,038,962</u>
Total Noncurrent Assets	\$ 6,354,194	\$ 9,490,580	\$ 15,844,774
Total Assets	<u>\$ 8,818,073</u>	<u>\$ 9,873,237</u>	<u>\$ 18,691,310</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 130,628	\$ 133,407	\$ 264,035
Deferred revenues and deposits	320,000	29,427	349,427
Other current liabilities	146,758	34,540	181,298
Current portion of long-term liabilities	<u>341,692</u>	<u>151,620</u>	<u>493,312</u>
Total Current Liabilities	\$ 939,078	\$ 348,994	\$ 1,288,072
Long-term liabilities (net of current portion):			
Compensated absences	\$ 460,850	\$ 171,334	\$ 632,184
Bonds, notes and contracts payable	<u>2,064,801</u>	<u>1,965,478</u>	<u>4,030,279</u>
	<u>\$ 2,525,651</u>	<u>\$ 2,136,812</u>	<u>\$ 4,662,463</u>
Total Liabilities	<u>\$ 3,464,729</u>	<u>\$ 2,485,806</u>	<u>\$ 5,950,535</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Net Assets (Continued)

	<u>June 30, 2005</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,149,989	\$ 4,467,159	\$ 7,617,148
Restricted	60,519	254,453	314,972
Unrestricted	<u>2,142,836</u>	<u>2,665,819</u>	<u>4,808,655</u>
Total Net Assets	<u>\$ 5,353,344</u>	<u>\$ 7,387,431</u>	<u>\$ 12,740,775</u>

The City's net assets are \$12,740,775 at June 30, 2005. Capital assets, net of related debt are \$7,617,148. Infrastructure assets capitalized by the City during the year ended June 30, 2005, were \$300,840.

Restricted net assets are restricted for debt service. The unrestricted net assets are \$4,808,655 as of June 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities

The results of operations for the City as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year.

	<u>Year ended June 30, 2006</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenues:			
Program Revenues:			
Charges for services	\$ 271,098	\$ 2,980,666	\$ 3,251,764
Operating grants	1,294,794		1,294,794
Capital grants		302,955	302,955
General Revenues:			
Federal and state grants	909,353		909,353
Property taxes	1,681,969	71,447	1,753,416
Other	<u>247,316</u>	<u>8,448</u>	<u>255,764</u>
Total Revenue	\$ 4,404,530	\$ 3,363,516	\$ 7,768,046
Program expenses:			
Governmental activities	\$ 4,316,653		\$ 4,316,653
Business-type activities	<u> </u>	<u>\$ 2,800,393</u>	<u>2,800,393</u>
Total Program Expenses	<u>\$ 4,316,653</u>	<u>\$ 2,800,393</u>	<u>\$ 7,117,046</u>
Increase in Net Assets	<u>\$ 87,877</u>	<u>\$ 563,123</u>	<u>\$ 651,000</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements – Condensed Financial Information (Continued)

Statement of Activities (Continued)

	<u>Year ended June 30, 2005</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenue:			
Program Revenues:			
Charges for services	\$ 297,640	\$ 2,957,787	\$ 3,255,427
Operating grants	1,194,588		1,194,588
Capital grants	235,510	118,168	353,678
General Revenues:			
Federal and state grants	1,159,167		1,159,167
Property taxes	1,630,464		1,630,464
Other	<u>297,301</u>	<u>40,949</u>	<u>338,250</u>
Total Revenue	\$ 4,814,670	\$ 3,116,904	\$ 7,931,574
Program expenses:			
Governmental activities	\$ 3,999,472		\$ 3,999,472
Business-type activities	<u> </u>	<u>\$ 2,717,759</u>	<u>2,717,759</u>
Total Program Expenses	\$ 3,999,472	\$ 2,717,759	\$ 6,717,231
Increase in Net Assets	<u>\$ 815,198</u>	<u>\$ 399,145</u>	<u>\$ 1,214,343</u>

The City had an overall increase in net assets of \$651,000 and \$1,214,343 for the years ended June 30, 2006 and 2005, respectively. The largest increase in the net assets for the business-type activities were due to operations of the Water and Sewer Utility Funds. Starting July 1, 2003, the City began capitalizing infrastructure capital outlay instead of expensing these items. Operating grants and contributions continue to be recognized as program revenues.

The City's revenues totaled \$7,768,046 and \$7,931,574 for the years ended June 30, 2006 and 2005, respectively.

The City's total cost to fund all governmental activities was \$4,316,653 and \$3,999,472 and business-type activities was \$2,800,393 and \$2,717,759 for the years ended June 30, 2006 and 2005, respectively. A majority of these costs were funded by property taxes and state and federal grants. This shows the City has reliance on property taxes and state and federal grants to provide future funding for their programs and administrative costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Fund Budgetary Items

During the year, the City revised its original budget several times to account for the changing environment of funding sources and spending needs. The City had no significant areas where it overspent its budget during the year ended June 30, 2006. A schedule showing the City's original budget, final budget and the actual results is included as required supplementary information in the financial section of the audit report.

Capital Assets

At June 30, 2006, the City had \$12,115,308 invested in capital assets, net of depreciation. The City's net capital assets increased during the past fiscal year by \$76,346. Additions totaling \$708,049 were offset by depreciation charges of \$631,703. The City reported no infrastructure asset additions during the year ended June 30, 2006.

Debt

The City had \$4,815,955 of long-term liabilities at June 30, 2006. This amount consists of revenue bonds payable, general obligation bonds and note payable, accrued paid time-off benefits payable to employees, a financing agreement and equipment purchase contracts payable. \$431,563 will be payable within one year.

Future Considerations

The reduction in state aid payments because of budget cuts, the somewhat stagnant value of property tax revenues, reliance of certain Special Revenue Funds on General Fund support, increasing health insurance costs and increasing pension costs will all impact the financial condition of the City. The City has adopted a budget for the upcoming fiscal year that should not over expend its funding and should leave the City with a positive Fund Balance. The City is taking proactive steps to look at employee benefits, staffing levels and efficiencies of operations. The City is actively exploring ways to curtail or reduce these liabilities. The City continues to utilize grants to finance street projects and improvements to infrastructure. Cooperative and collaborative efforts have enabled shared funding sources between departments. The Water and Sewer Utility Funds will finance some major capital improvements in the upcoming year. These improvements will be paid for with federal grants and monies the City has set aside for improvement projects.

Component Unit

Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

Contacting the City

If you have any questions about this report or need additional information, contact the City offices at City of Ironwood, 213 South Marquette Street, Ironwood, MI 49938; telephone number (906) 932-5050.

PRIMARY
GOVERNMENT
BASIC
FINANCIAL
STATEMENTS

STATEMENT OF
CITY OF IRONWOOD,
JUNE 30,

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 1,158,877	\$ 167,178	\$ 1,326,055
Investments	527,745		527,745
Receivables (net, where applicable, of allowances for uncollectibles):			
Accounts	581,996	158,006	740,002
Grants	66,031	25,522	91,553
Notes	885,269		885,269
Internal balances	125,392	(125,392)	
Inventories	53,225	226,529	279,754
Prepaid expenses	46,852		46,852
Capital assets:			
Land, buildings, equipment and infrastructure	\$ 13,463,064	\$ 11,295,528	\$ 24,758,592
Less allowances for depreciation	(8,201,616)	(5,034,083)	(13,235,699)
Construction in progress		592,415	592,415
	\$ 5,261,448	\$ 6,853,860	\$ 12,115,308
Investment in Gogebic-Iron Wastewater Authority		2,629,516	2,629,516
Deferred loan charges and bond discount		41,168	41,168
Restricted cash	28,956	259,857	288,813
Total Assets	\$ 8,735,791	\$ 10,236,244	\$ 18,972,035

NET ASSETS

MICHIGAN

2006

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
LIABILITIES			
Accounts payable	\$ 172,309	\$ 83,464	\$ 255,773
Salaries and fringes	95,312		95,312
Undistributed tax collections	21,953		21,953
Interest payable	19,128	32,252	51,380
Deferred revenues and deposits	320,000	19,887	339,887
Long-term debt:			
Compensated absences:			
Due within one year	\$ 12,360		\$ 12,360
Due beyond one year	<u>527,915</u>	<u>\$ 184,609</u>	<u>712,524</u>
	\$ 540,275	\$ 184,609	\$ 724,884
Bonds, notes payable and			
equipment contracts payable:			
Due within one year	\$ 277,340	\$ 141,863	\$ 419,203
Due beyond one year	<u>1,848,253</u>	<u>1,823,615</u>	<u>3,671,868</u>
	<u>\$ 2,125,593</u>	<u>\$ 1,965,478</u>	<u>\$ 4,091,071</u>
Total Liabilities	<u>\$ 3,294,570</u>	<u>\$ 2,285,690</u>	<u>\$ 5,580,260</u>
NET ASSETS			
Net assets:			
Invested in capital assets,			
net of related debt	\$ 3,135,855	\$ 4,888,382	\$ 8,024,237
Restricted	61,629	259,857	321,486
Unrestricted	<u>2,243,737</u>	<u>2,802,315</u>	<u>5,046,052</u>
Net Assets	<u>\$ 5,441,221</u>	<u>\$ 7,950,554</u>	<u>\$ 13,391,775</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT
CITY OF IRONWOOD,
Year ended

		<u>Program Revenues</u>		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 41,808			
General government	731,612	\$ 214,023		
Public safety	1,101,229	33,941	\$ 19,250	
Public works	1,071,962		828,215	
Recreation and culture	228,901	23,134	6,229	
Health and welfare	559,578		441,100	
Other functions	216,617			
Interest on long-term debt	101,139			
Depreciation (unallocated)	<u>263,807</u>			
Total Governmental Activities	\$ 4,316,653	\$ 271,098	\$ 1,294,794	\$ 0
Business-type activities:				
Water Utility	\$ 1,327,240	\$ 1,557,070		\$ 231,739
Sewer Utility	1,315,704	1,332,184		71,216
Civic Center	<u>157,449</u>	<u>91,412</u>		
Total Business-Type Activities	\$ <u>2,800,393</u>	\$ <u>2,980,666</u>		\$ <u>302,955</u>
Total Primary Government	\$ 7,117,046	\$ 3,251,764	\$ 1,294,794	\$ 302,955
General revenues:				
Taxes				
Licenses and permits				
State grants				
Contributions from local units				
Fines and forfeits				
Interest and rents				
Other revenues				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net assets at June 30, 2005				
Net assets at June 30, 2006				

The accompanying notes are an integral part of the financial statements.

OF ACTIVITIES

MICHIGAN

June 30, 2006

<u>Net (Expense) Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u>		
Governmental Activities	Business-type Activities	Total
\$ (41,808)		\$ (41,808)
(517,589)		(517,589)
(1,048,038)		(1,048,038)
(243,747)		(243,747)
(199,538)		(199,538)
(118,478)		(118,478)
(216,617)		(216,617)
(101,139)		(101,139)
<u>(263,807)</u>		<u>(263,807)</u>
\$ (2,750,761)		\$ (2,750,761)
	\$ 461,569	\$ 461,569
	87,696	87,696
	<u>(66,037)</u>	<u>(66,037)</u>
\$ 0	\$ 483,228	\$ 483,228
\$ (2,750,761)	\$ 483,228	\$ (2,267,533)
\$ 1,681,969	\$ 71,447	\$ 1,753,416
20,689		20,689
909,353		909,353
13,300		13,300
66,490		66,490
85,654	8,448	94,102
185,183		185,183
<u>(124,000)</u>		<u>(124,000)</u>
\$ 2,838,638	\$ 79,895	\$ 2,918,533
\$ 87,877	\$ 563,123	\$ 651,000
<u>5,353,344</u>	<u>7,387,431</u>	<u>12,740,775</u>
\$ 5,441,221	\$ 7,950,554	\$ 13,391,775

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

	General	Major Street Fund	Local Street Fund	Neighborhood Preservation Program	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 835,352			\$ 36,898	\$ 286,627	\$ 1,158,877
Investments					527,745	527,745
Receivables (net, where applicable, of allowances for uncollectibles):						
Accounts	508,250				73,746	581,996
Grants				66,031		66,031
Notes					885,269	885,269
Due from other funds	138,451	\$ 206,540	\$ 187,157		16,858	549,006
Inventories	53,225					53,225
Prepaid expenses	46,852					46,852
Restricted cash		28,956				28,956
	<u>\$ 1,582,130</u>	<u>\$ 235,496</u>	<u>\$ 187,157</u>	<u>\$ 102,929</u>	<u>\$ 1,790,245</u>	<u>\$ 3,897,957</u>
LIABILITIES AND MUNICIPAL EQUITY						
Accounts payable	\$ 66,520		\$ 1,137	\$ 98,129	\$ 2,403	\$ 168,189
Salaries and fringes	93,119	\$ 2,193				95,312
Due other funds	415,644	204,033	186,020	4,800	50,647	861,144
Undistributed tax collections	21,953					21,953
Deferred revenues					320,000	320,000
	<u>\$ 597,236</u>	<u>\$ 206,226</u>	<u>\$ 187,157</u>	<u>\$ 102,929</u>	<u>\$ 373,050</u>	<u>\$ 1,466,598</u>
Municipal equity:						
Fund balance:						
Reserved	\$ 135,077	\$ 28,956			\$ 608,681	\$ 772,714
Unreserved	849,817	314			808,514	1,658,645
	<u>\$ 984,894</u>	<u>\$ 29,270</u>			<u>\$ 1,417,195</u>	<u>\$ 2,431,359</u>
	<u>\$ 1,582,130</u>	<u>\$ 235,496</u>	<u>\$ 187,157</u>	<u>\$ 102,929</u>	<u>\$ 1,790,245</u>	<u>\$ 3,897,957</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

Fund balances - total governmental funds		\$ 2,431,359
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		
Governmental capital assets	\$ 10,992,144	
Less accumulated depreciation	<u>(6,402,803)</u>	4,589,341
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Accumulated absences	\$ (484,704)	
Bonds and notes payable	(1,767,421)	
Interest on long-term debt	<u>(19,128)</u>	(2,271,253)
Internal Service Fund net assets are presented in the Statement of Net Assets as a governmental activity, but are not included in the Combined Balance Sheet for Governmental Funds.		<u>691,774</u>
Net assets of governmental activities		<u>\$ 5,441,221</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	General	Major Street	Local Street Fund	Neighborhood Preservation Program	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 1,444,041				\$ 237,928	\$ 1,681,969
Licenses and permits	20,689					20,689
State grants	909,353	\$ 607,713	\$ 220,502		6,229	1,743,797
Federal grants	38,785			\$ 401,874	19,691	460,350
Contributions from local units					13,300	13,300
Fines and forfeits					66,490	66,490
Charges for services	92,258				66,172	158,430
Interest and rents	160,644	1,191			36,487	198,322
Other revenues	59,998			60,739	64,446	185,183
Total Revenues	\$ 2,725,768	\$ 608,904	\$ 220,502	\$ 462,613	\$ 510,743	\$ 4,528,530
Expenditures:						
Current:						
Legislative	\$ 41,808					\$ 41,808
General government	607,581				\$ 124,031	731,612
Public safety	1,057,039				44,190	1,101,229
Public works	123,273	\$ 498,656	\$ 450,033			1,071,962
Recreation and culture	88,350				140,551	228,901
Health and welfare	105,156			\$ 392,548	61,874	559,578
Other functions	42,605	42,128	44,977	70,065	10,470	210,245
Capital outlay	70,289				29,370	99,659
Debt service	64,026	90,785			163,948	318,759
Total Expenditures	\$ 2,200,127	\$ 631,569	\$ 495,010	\$ 462,613	\$ 574,434	\$ 4,363,753
Excess (Deficiency) of Revenues Over Expenditures	\$ 525,641	\$ (22,665)	\$ (274,508)	\$ 0	\$ (63,691)	\$ 164,777
Other financing sources (uses) - Operating transfers in (out)	(476,212)		274,508		77,704	(124,000)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ 49,429	\$ (22,665)	\$ 0	\$ 0	\$ 14,013	\$ 40,777
Fund balance at July 1, 2005	935,465	51,935	0	0	1,403,182	2,390,582
FUND BALANCE AT JUNE 30, 2006	\$ 984,894	\$ 29,270	\$ 0	\$ 0	\$ 1,417,195	\$ 2,431,359

The accompanying notes are an integral part of the
financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

Net change in fund balance - total governmental funds	\$	40,777
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	\$	99,659
Less current year depreciation	<u>(263,807)</u>	(164,148)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.		210,881
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, those costs represent expenses of the current year. The net change from beginning to end of year does not affect the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		14,224
Change in interest payable from beginning to end of year does not affect the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.		6,739
Change in Net Assets of the Internal Service Fund is reported in the Statement of Activities, but is not included in the governmental funds Statement of Revenues, Expenditures and Fund Balance.		<u>(20,596)</u>
Change in net assets of governmental funds	<u>\$</u>	<u>87,877</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
CITY OF IRONWOOD, MICHIGAN

June 30, 2006

	Business-Type Activities				Governmental	
	Enterprise Funds				Activities	
	Nonmajor			Total	Internal	
	Water	Sewer	Pat O'Donnell	Enterprise	Service	
	Utility	Utility	Civic	Funds	Fund	
			Center			
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 96,532	\$ 60,914	\$ 9,732	\$ 167,178		
Accounts receivable, less \$14,403 allowance for uncollectibles						
Grant receivable	77,362	80,341	303	158,006		
Due from other funds	25,522			25,522		
Inventories	92,685			92,685	\$	437,530
	<u>206,188</u>	<u>20,341</u>		<u>226,529</u>		
Total Current Assets	\$ 498,289	\$ 161,596	\$ 10,035	\$ 669,920	\$	437,530
Capital Assets:						
Capital assets	\$ 7,277,028	\$ 2,815,140	\$ 1,203,360	\$ 11,295,528	\$	2,470,920
Less allowances for depreciation	<u>(3,403,808)</u>	<u>(996,257)</u>	<u>(634,018)</u>	<u>(5,034,083)</u>		<u>(1,798,813)</u>
	\$ 3,873,220	\$ 1,818,883	\$ 569,342	\$ 6,261,445	\$	672,107
Construction in progress	<u>452,710</u>	<u>139,705</u>		<u>592,415</u>		
Total Noncurrent Assets	\$ 4,325,930	\$ 1,958,588	\$ 569,342	\$ 6,853,860	\$	672,107
Other Assets:						
Investment in Gogebic-Iron Wastewater Authority		\$ 2,629,516		\$ 2,629,516		
Deferred loan charges and bond discount, net of amortization						
Restricted cash:						
Bond reserve accounts	\$ 35,628	5,540		41,168		
Bond redemption accounts	134,187	18,279		152,466		
	<u>99,659</u>	<u>7,732</u>		<u>107,391</u>		
	\$ 269,474	\$ 2,661,067		\$ 2,930,541		
Total Assets	\$ 5,093,693	\$ 4,781,251	\$ 579,377	\$ 10,454,321	\$	1,109,637

COMBINED STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities					Governmental
	Enterprise Funds				Activities	
	Water Utility	Sewer Utility	Pat O'Donnell Civic Center	Total Enterprise Funds	Internal Service Fund	
LIABILITIES						
Current Liabilities:						
Accounts payable:						
Trade	\$ 39,169	\$ 4,977	\$ 1,015	\$ 45,161	\$ 4,120	
Construction	38,303			38,303		
Accrued interest	25,189	7,063		32,252		
Due to other funds		152,915	65,162	218,077		
Customer deposits	19,887			19,887		
Current maturities on long-term debt	<u>98,215</u>	<u>31,144</u>	<u>12,504</u>	<u>141,863</u>	<u>54,050</u>	
Total Current Liabilities	\$ 220,763	\$ 196,099	\$ 78,681	\$ 495,543	\$ 58,170	
Long-term debt:						
Compensated absences	\$ 152,986	\$ 31,623		\$ 184,609	\$ 55,571	
General obligation limited tax bonds	79,290	150,651		229,941		
Revenue bonds	1,445,000	190,000		1,635,000		
Equipment contract and note payable			\$ 100,537	100,537	358,172	
Less portion included in current liabilities	<u>(98,215)</u>	<u>(31,144)</u>	<u>(12,504)</u>	<u>(141,863)</u>	<u>(54,050)</u>	
Total Noncurrent Liabilities	\$ 1,579,061	\$ 341,130	\$ 88,033	\$ 2,008,224	\$ 359,693	
Total Liabilities	<u>\$ 1,799,824</u>	<u>\$ 537,229</u>	<u>\$ 166,714</u>	<u>\$ 2,503,767</u>	<u>\$ 417,863</u>	
NET ASSETS						
Net Assets:						
Invested in capital assets, net of related debt	\$ 2,801,640	\$ 1,617,937	\$ 468,805	\$ 4,888,382	\$ 313,935	
Restricted	233,846	26,011		259,857		
Unrestricted (deficit)	<u>258,383</u>	<u>2,600,074</u>	<u>(56,142)</u>	<u>2,802,315</u>	<u>377,839</u>	
Total Net Assets	<u>\$ 3,293,869</u>	<u>\$ 4,244,022</u>	<u>\$ 412,663</u>	<u>\$ 7,950,554</u>	<u>\$ 691,774</u>	

The accompanying notes are an integral part of the financial statements. 25

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Business-Type Activities					Governmental Activities
	Enterprise Funds				Total	
	Water Utility	Sewer Utility	Pat O'Donnell Civic Center	Nonmajor	Enterprise Funds	Internal Service Fund
Operating revenues:						
Charges for service	\$ 1,543,858	\$ 1,329,411	\$ 91,412		\$ 2,964,681	\$ 646,300
Other	<u>13,212</u>	<u>2,773</u>			<u>15,985</u>	<u>12,129</u>
	\$ 1,557,070	\$ 1,332,184	\$ 91,412		\$ 2,980,666	\$ 658,429
Operating expenses:						
Personnel services	\$ 414,734	\$ 193,877	\$ 39,551		\$ 648,162	\$ 249,522
Purchase of services	639,533	1,014,245	55,378		1,709,156	154,266
Materials and supplies	95,102	20,625	14,400		130,127	120,448
Provisions for depreciation	<u>107,509</u>	<u>63,666</u>	<u>45,984</u>		<u>217,159</u>	<u>150,737</u>
	\$ 1,256,878	\$ 1,292,413	\$ 155,313		\$ 2,704,604	\$ 674,973
Operating Income (Loss)	\$ 300,192	\$ 39,771	\$ (63,901)		\$ 276,062	\$ (16,544)
Nonoperating revenues (expenses):						
Interest earned	\$ 7,498	\$ 950			\$ 8,448	
Federal grants	231,739	71,216			302,955	
Gain on sale of equipment						\$ 12,550
Property taxes				\$ 71,447	71,447	
Debt service interest	<u>(70,362)</u>	<u>(23,291)</u>	<u>(2,136)</u>		<u>(95,789)</u>	<u>(16,602)</u>
	\$ 168,875	\$ 48,875	\$ 69,311		\$ 287,061	\$ (4,052)
Change in Net Assets	\$ 469,067	\$ 88,646	\$ 5,410		\$ 563,123	\$ (20,596)
Net assets at July 1, 2005	<u>2,824,802</u>	<u>4,155,376</u>	<u>407,253</u>		<u>7,387,431</u>	<u>712,370</u>
NET ASSETS AT JUNE 30, 2006	\$ 3,293,869	\$ 4,244,022	\$ 412,663		\$ 7,950,554	\$ 691,774

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Business-Type Activities					Governmental Activities
	Enterprise Funds			Total Enterprise Funds		
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center			
Cash flows from operating activities:						
Cash received from customers	\$ 1,556,929	\$ 1,333,157	\$ 91,099	\$ 2,981,185	\$ 615,130	
Cash paid to employees and suppliers for goods and services	<u>(1,225,702)</u>	<u>(1,199,864)</u>	<u>(133,077)</u>	<u>(2,558,643)</u>	<u>(521,208)</u>	
Net Cash Provided by (Used in) Operating Activities	\$ 331,227	\$ 133,293	\$ (41,978)	\$ 422,542	\$ 93,922	
Cash flows from capital and related financing activities:						
Acquisition and construction of property and equipment	\$ (376,525)	\$ (150,211)	\$ (5,345)	\$ (532,081)	\$ (103,980)	
Proceeds from sale of equipment					12,550	
Principal paid on long-term debt	(93,215)	(28,501)	(12,256)	(133,972)	(54,564)	
Interest paid on long-term debt	(74,081)	(23,026)	(2,136)	(99,243)	(16,602)	
Federal grants received	206,217	71,216		277,433	68,674	
Proceeds from borrowing			71,447	71,447		
Property taxes						
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ (337,604)	\$ (130,522)	\$ 51,710	\$ (416,416)	\$ (93,922)	
Cash flows from investing activities - Interest earned	<u>7,498</u>	<u>950</u>		<u>8,448</u>		
Net Increase in Cash	\$ 1,121	\$ 3,721	\$ 9,732	\$ 14,574	\$ 0	
Cash and cash equivalents at July 1, 2005	<u>329,257</u>	<u>83,204</u>	<u>0</u>	<u>412,461</u>	<u>0</u>	
CASH AND CASH EQUIVALENTS AT JUNE 30, 2006	<u>\$ 330,378</u>	<u>\$ 86,925</u>	<u>\$ 9,732</u>	<u>\$ 427,035</u>	<u>\$ 0</u>	

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

	Business-Type Activities				Governmental Activities
	Enterprise Funds			Total Enterprise Funds	
	Water Utility	Sewer Utility	Nonmajor Pat O'Donnell Civic Center		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 300,192	\$ 39,771	\$ (63,901)	\$ 276,062	\$ (16,544)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	\$ 107,509	\$ 63,666	\$ 45,984	\$ 217,159	\$ 150,737
(Increase) decrease in current assets:					
Accounts receivable	9,399	973	(303)	10,069	
Due from other funds	24,287			24,287	(43,299)
Inventories	(28,629)	233		(28,396)	
Increase (decrease) in liabilities:					
Trade accounts payable	(13,367)	(3,933)	(4,972)	(22,272)	(3,794)
Due other funds	(55,149)	33,481	(18,786)	(40,454)	(2,698)
Customer deposits	(9,540)			(9,540)	
Compensated absences	(3,475)	(898)		(4,373)	9,520
Total adjustments	\$ 31,035	\$ 93,522	\$ 21,923	\$ 146,480	\$ 110,466
	\$ 331,227	\$ 133,293	\$ (41,978)	\$ 422,542	\$ 93,922

NET CASH PROVIDED BY
(USED IN) OPERATING ACTIVITIES

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

	Pension Trust Funds	Retiree Healthcare Fund	Agency Funds
ASSETS			
Cash	\$ 179,425	\$ 3,998	\$ 5,207
Receivables:			
Interest	30,753		
Delinquent property taxes	4,863		
Investments:			
U.S. Treasury and agency obligations	427,940		
Domestic corporate bonds	1,826,063		
Domestic stock and mutual funds	6,205,738		
International mutual funds	1,778,735		
International corporate bonds	23,685		
Money market funds	202,814	80,000	
Total Assets	<u>\$ 10,680,016</u>	<u>\$ 83,998</u>	<u>\$ 5,207</u>
LIABILITIES			
Liabilities:			
Undistributed tax collections			\$ 5,207
Accounts payable	<u>\$ 10,453</u>		
	<u>\$ 10,453</u>	<u>\$ 0</u>	<u>\$ 5,207</u>
NET ASSETS			
Net assets held in trust for:			
Pension benefits	\$ 10,669,563		
Post-employment health care benefits		\$ 83,998	
Total Net Assets	<u>\$ 10,669,563</u>	<u>\$ 83,998</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

Additions:		
Property taxes		\$ 218,569
Contributions		287,311
Net investment income		<u>808,274</u>
	Total Additions	\$ 1,314,154
Deductions:		
Retirement benefits	\$ 1,059,237	
Refunds of member contributions	14,387	
Administrative expense	<u>27,564</u>	<u>1,101,188</u>
	Net Increase	\$ 212,966
Net assets held in trust balance at July 1, 2005		<u>10,456,597</u>
	NET ASSETS HELD IN TRUST AT JUNE 30, 2006	<u>\$ 10,669,563</u>

The accompanying notes are an integral part of the
financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NOTES TO FINANCIAL STATEMENTS

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Ironwood operates under an elected City Commission. The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

The financial statements of the reporting entity include only those of City of Ironwood primary government. Its component unit, Ironwood Housing Commission, is not included in the primary government financial statements because its June 30, 2006 audited financial statements are not available to the City.

The financial reporting entity, as required by generally accepted accounting principles, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations referred to generally as component units for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

The Ironwood Housing Commission, located within the City's boundaries, provides housing to elderly individuals. The members of the governing board of the Ironwood Housing Commission are all appointed by the City of Ironwood City Commission, the Housing Commission is required to make annual payments in lieu of taxes in amounts established by the City Commission, and employees of the Housing Commission are considered to be employees of the City of Ironwood. Separate financial statements for the Ironwood Housing Commission may be obtained at its administrative offices at 515 East Vaughn Street, Ironwood, Michigan.

Following is a condensed statement of net assets and statement of activities as of and for the year ended June 30, 2005, the date of the most recently audited financial statements of the Ironwood Housing Commission:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENT OF NET ASSETS

JUNE 30, 2005

Assets:

Cash	\$ 465,644
Investments	190,950
Other current assets	21,917
Capital assets, net of allowances for depreciation	<u>3,364,823</u>

Total Assets \$ 4,043,334

Liabilities:

Accounts payable	\$ 43,833
Other	47,857
Compensated absences	<u>9,876</u>

Total Liabilities \$ 101,566

Net Assets:

Invested in capital assets	\$ 3,364,823
Unrestricted	<u>576,945</u>

Total Net Assets \$ 3,941,768

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

Charges for services	\$ 339,327
Operating grants	467,073
Other revenues	<u>23,437</u>

Total Revenues \$ 829,837

Expenses	<u>901,934</u>
----------	----------------

Change in Net Assets \$ (72,097)

Net assets at July 1, 2004 4,013,865

Net Assets at June 30, 2004 \$ 3,941,768

The financial statements of certain other governmental organizations, as set forth below, are not included in the financial statements of the City in accordance with generally accepted accounting principles.

Educational services are provided to citizens through the local school district which is a separate governmental entity. A wastewater system constructed in part within the City's boundaries is provided to citizens through a regional wastewater authority. The financial statements of the City do not include the wastewater authority, which operates autonomously under an intergovernmental service agreement; however, the City's investment in the wastewater authority is accounted for in the Sewer Utility Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the City except for the fiduciary activities. All of the City's activities are considered to be governmental activities or business-type activities. Interfund activity including operating transfers between activities and amounts due to and from activities has been eliminated in the government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided for on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental, business-type activities, as well as fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The City reports the following major funds:

General Fund – the general operating fund of the City. This fund is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund – used to account for the financial transactions of the City's major street system.

Local Street Fund – used to account for the financial transactions of the City's local street system.

Neighborhood Preservation Program Fund – used to account for the financial transactions of the housing rehabilitation block grant program.

Water Utility Fund – used to account for the financial transactions of the water utility system.

Sewer Utility Fund – used to account for the financial transactions of the sewer utility system.

Internal Service Fund – used to account for the financial transactions of the City's equipment provided to other departments on a cost-reimbursement basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund-based Financial Statements (Continued)

All other funds are considered to be nonmajor. They include:

Special Revenue Funds - are used by the City to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund - is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Funds

Enterprise Funds - are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or for activities where periodic measurement of net income is appropriate for capital maintenance, public policies, management control or other purposes.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for others.

Basis of Accounting

Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses and gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the City's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the City provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, state and federal grant revenues that are not program revenues are reported as general revenues. Internal Service Fund charges to other funds and expenses paid are eliminated from the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Revenues are available when they are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Property tax revenues are recognized as revenue when they are levied, with proper allowances made for estimated uncollectible accounts and delinquent accounts. Other tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when the conditions of the grants are satisfied. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Proprietary, Internal Service and Fiduciary Financial Statements

Proprietary fund types, Internal Service and Pension Trust Funds use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises. Revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the City applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Granting of Credit

The General Fund grants credit to the State of Michigan and various local units of government and individuals in the western Upper Peninsula of Michigan. The City also extends credit to its Cemetery Trust Fund and Enterprise Fund customers on a routine basis. In addition, the City has loaned various individuals, partnerships and corporations monies as explained in Note E below.

Cash and Cash Equivalents

Cash applicable to a particular fund is readily identifiable. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. For purposes of the Statement of Cash Flows, cash includes all cash equivalents with an original maturity of three months or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. In the Statement of Net Assets, interfund receivables and payables between funds classified as governmental activities and funds classified as business-type activities have been eliminated.

Interest Receivable

Interest on investments and certain receivables is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Inventories

Inventories for all governmental funds and proprietary funds are valued at cost (first-in, first-out).

Other Assets

Other assets held are recorded and accounted for at cost.

Restricted Cash and Investments

Enterprise Funds and the Major Street Fund, because of certain bond covenants, are required to establish and maintain prescribed amounts of restricted resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets, including land and improvements, buildings, furniture and fixtures, equipment, vehicles, library books and infrastructure assets (roads, bridges, sidewalks and similar items) are reported in the Government-wide financial statements. Capital assets are defined by the City and its component unit as assets with an acquisition cost of generally more than \$1,000 or betterments totaling \$20,000 with an estimated useful life of five or more years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded in the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for the function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method over the following useful lives (land excluded as not depreciable):

Land improvements	20 years
Buildings	25-50 years
Furniture, fixtures and other equipment	5-20 years
Vehicles	5-10 years
Library books	5 years
Roads	5-30 years
Other infrastructure	12-50 years

Long-Term Debt

The City reports long-term debt and other long-term obligations in the Government-wide Statement of Net Assets. Amounts are recorded at face value along with any accrued interest to June 30, 2006.

Pensions

The provision for pension cost is recorded on the accrual basis, and the City's policy is to fund pension costs as they accrue.

Property Tax Revenues

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Allowances are made for estimated uncollectible accounts and delinquent accounts.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues (Continued)

Property taxes attach as an enforceable lien on property as of December 31. City and School taxes are levied on the ensuing July 1, and County taxes are levied on July 1 and December 1. The City bills and collects its own property taxes and also collects current rolls for the County, State, School District and Intermediate School District.

Delinquent real property taxes of the City are purchased annually by the County of Gogebic.

Vacation, Sick Leave and Other Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences either vest or accumulate and are accrued when they are earned.

Investment in Capital Assets, Net of Related Debt

This is the portion of net assets of the City that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

Unrestricted Net Assets

Net assets not meeting either category above are considered unrestricted.

Fund Balance

In the fund-based financial statements the unreserved fund balances represent the amount available for budgeting future operations. The reserved fund balances represent the tentative and required plans for future use of financial resources.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

Formal budgetary accounting is employed as a management control for all funds of the City; however, legal budgets are adopted only for the General, Special Revenue and Debt Service Funds. Thus, the budgetary financial statements included in this report do not include proprietary funds or Trust and Agency Funds. For each fund for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

The City follows these procedures in establishing data reflected in the financial statements:

1. Prior to July 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held to obtain taxpayers' comments.
3. Prior to July 1, the budget is legally enacted at the annual meeting by City Commission adoption of a resolution authorizing a General Appropriation Act for the fiscal year.
4. Any revisions to the budgeted amounts are approved by the City Commission.
5. Budgeted amounts are as originally adopted, plus amendments made on or before June 30, by the City Commission.
6. The budget expires on June 30 of the budget year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The City did not have any funds with a net asset deficiency at June 30, 2006. Pat O'Donnell Civic Center Operations had an unrestricted net asset deficiency of \$56,142 at June 30, 2006. That fund also had net assets invested in capital assets, net of related debt, of \$468,805 at June 30, 2006.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the City's actual expenditures and appropriations have been shown on a functional basis. The approved budgets for the City for these budgetary funds were also adopted on the functional level.

During the year ended June 30, 2006, the City did not incur expenditures significantly in excess of the amounts appropriated.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Compliance with Bond Covenants

Revenue bond ordinances issued by the Water Utility, Sewer Utility and Major Street Fund require the City to segregate receipts to establish several reserve accounts. Following is a summary of required reserves and funding levels at June 30, 2006:

	<u>June 30, 2006</u>	
	<u>Required</u>	<u>Reserve</u>
	<u>Reserve</u>	<u>Balance</u>
Water and Sewer Utility:		
1996 Water Supply System Revenue Bonds:		
Bond Reserve Account	\$ 99,500	\$ 125,687
Bond Redemption Account	39,974	81,444
1999 Water Supply System Revenue Bonds:		
Bond Redemption Account	13,969	13,969
2000 Water Supply System Revenue Bond:		
Bond Reserve Account	8,500	8,500
Bond Redemption Account	4,246	4,246
2000 Sewage Disposal System Revenue Bonds:		
Bond Reserve Account	15,500	18,279
Bond Redemption Account	<u>2,339</u>	<u>7,732</u>
	\$ 184,028	\$ 259,857
Major Street Fund -		
2000 Michigan Transportation Fund Bonds -		
Debt Service Account	<u>23,071</u>	<u>28,956</u>
TOTALS	<u>\$ 207,099</u>	<u>\$ 288,813</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENT INFORMATION

Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately presented on the balance sheet as "Cash and cash equivalents" and "Restricted cash". Total deposits in financial institutions of the primary government at June 30, 2006, totaled \$1,483,759 of which \$157,371 was covered by depository insurance and \$1,326,388 exceeded insurance limits or were in accounts not covered by depository insurance. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City places its deposits with, what it believes to be, high quality financial institutions. Although such deposits were not fully insured, they are, in the opinion of the City, subject to minimal risk.

All deposits at June 30, 2006, were made in accordance with State of Michigan statutes and under authorization of the City Commission.

Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City Treasurer. State of Michigan statutes authorize investments in: direct obligations of the United States or an agency of the United States; banks which are members of the Federal Deposit Insurance Corporation; commercial paper rated at the time of purchase within the three highest classifications established by no fewer than two standard rating services; United States government or agency obligation repurchase agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All investments were made in accordance with State of Michigan statutes and under authorization of the City Commission. Investments are stated at fair market value.

For investments, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. All of the City's investments are insured or registered or for which the securities are held by the City or its agent in the City's name.

At June 30, 2006, the City's reporting entity had the following investments:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CASH AND INVESTMENT INFORMATION (CONTINUED)

<u>Type of Investment</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality Rating (1)</u>	<u>Effective Duration (2)</u>	<u>Weighted Average Months to Maturity (2)</u>
Primary Government					
Money Market Mutual Fund	\$ 527,745	\$ 527,745	AAAm		N/A
Fiduciary Funds					
Retirement System Fund:					
Common Stock - Domestic	\$ 3,437,073	\$ 3,156,498	N/A	N/A	
Governmental Securities:					
Federal National Mortgage	7,564	7,911	AAA	27 years	
Mutual Funds:					
Bond - Domestic	1,280,901	1,300,760	AAA		N/A
Equity - International (3)	582,824	461,797	N/A	N/A	
Bond - International (3)	255,394	262,463	High		N/A
Money Market	76,989	76,989	AAAm		N/A
	\$ 5,640,745	\$ 5,266,418			
Public Safety Retirement System Fund:					
Common Stock - Domestic	\$ 2,768,665	\$ 2,136,986	N/A	N/A	
Government Securities:					
U.S. Treasury notes	135,645	140,480	AAA	3.8 years	
Federal Home Loan Bank	44,016	45,454	AAA	7 years	
Federal Home Loan Mortgage	92,347	95,450	AAA	3.3 years	
Federal National Mortgage	113,580	116,522	AAA	3.5 years	
Federal agency notes	34,788	32,982	N/A	27 years	
Corporate Obligations:					
Domestic	536,162	553,271	AA	4.7 years	
International (3)	23,685	25,690	BAA	7.5 years	
Domestic	9,000	9,000	N/A		N/A
Mutual Funds:					
Bond - International (3)	513,497	512,463	High		N/A
Money Market	125,825	125,825	AAAm		N/A
Equity - International (3)	427,020	400,000	N/A	N/A	
Total Public Safety Retirement System Fund	\$ 4,824,230	\$ 4,194,123			
Retiree Healthcare Fund -					
Money Market Mutual Fund	80,000	80,000	AAAm		N/A
Total Fiduciary Investments	\$10,544,975	\$ 9,540,541			
Total Investments	\$11,072,720	\$ 10,068,286			

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CASH AND INVESTMENT INFORMATION (CONTINUED)

- (1) Ratings are provided where applicable to indicate associated credit risk. N/A indicates not applicable.
- (2) Interest rate risk is estimated using either duration or weighted average months to maturity depending on the respective policy. Amounts are shown in months except as otherwise noted. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.
- (3) There is a foreign currency risk which is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable were comprised of the following at June 30, 2006:

<u>Fund</u>			
PRIMARY GOVERNMENT			
General:			
Delinquent taxes	\$	90,667	
State of Michigan		402,925	
Special assessments		6,001	
Advances to Housing Commission		47,780	
Other		<u>6,631</u>	
	\$	554,004	
Less allowances for uncollectibles		<u>(45,754)</u>	\$ 508,250
Special Revenue:			
Customer accounts and local units of government	\$	68,006	
Delinquent taxes		<u>2,229</u>	70,235
Debt Service - Delinquent taxes			3,511
Enterprise:			
Customer accounts	\$	172,409	
Less allowances for uncollectibles		<u>(14,403)</u>	158,006
Pension Trust:			
Delinquent taxes	\$	4,863	
Interest		<u>30,753</u>	35,616
Total Primary Government	\$		<u>775,618</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - NOTES RECEIVABLE

Special Revenue Funds

Notes receivable included in assets of the Special Revenue Fund consisted of the following at June 30, 2006:

Economic Development Fund:

5% note receivable from local corporation, payable in monthly installments of \$4,246, including interest. This note is collateralized by a security interest in equipment and machinery and by personal guarantees of the stockholders of the corporation.	\$ 166,840
---	------------

7% note receivable from local corporation, payable in monthly installments of \$1,132, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholders of the corporation.	43,478
---	--------

5% note receivable from local corporation, payable in monthly installments of \$439, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantees of the stockholder of the corporation.	27,608
--	--------

7% note receivable from individual, payable in monthly installments of \$495, including interest. This note is collateralized by a security interest in machinery and equipment and by personal guarantee.	23,931
--	--------

4.5% note receivable from local industrial development corporation, payable in monthly installments of \$2,295, including interest, commencing January 1, 2006. This note is secured by a mortgage on real property. During the year ended June 30, 2005, the City granted the corporation a 12-month deferral of all loan payments.	<u>300,000</u> \$561,857
--	-----------------------------

Housing Development Fund - 0% note receivable from partnership, payable in full on August 16, 2018. This note is collateralized by a second real estate mortgage on land and building in Ironwood, Michigan, and by a security interest in related furnishings, fixtures, machinery and equipment.	320,000
--	---------

Downtown Ironwood Development Authority - 8.5% note receivable from individual, payable in monthly installments of \$202. This note is secured by a security interest in machinery and equipment.	<u>3,412</u> <u>\$885,269</u>
---	----------------------------------

Principal and interest collected on the notes receivable included in the Economic Development and Downtown Ironwood Development Authority Funds are restricted for economic development purposes. The note receivable included in the Housing Development Fund is restricted for housing development purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Changes in primary governmental and proprietary activities capital assets are summarized below:

	Balance at July 1, 2005	Additions	Disposals	Balance June 30, 2006
PRIMARY GOVERNMENT				
<u>Governmental Activities</u>				
Land and land improvements	\$ 251,802			\$ 251,802
Buildings	7,792,520	\$ 35,710		7,828,230
Machinery and equipment	214,266	9,926	\$ 31,114	193,078
Office equipment and furniture	502,970	9,574	52,793	459,751
Vehicles	750,643	25,213	119,399	656,457
Library books	635,031	19,236		654,267
Infrastructure	948,559			948,559
	\$ 11,095,791	\$ 99,659	\$ 203,306	\$ 10,992,144
Less accumulated depreciation	(6,342,302)	(263,807)	(203,306)	(6,402,803)
Net	\$ 4,753,489	\$ (164,148)	\$ 0	\$ 4,589,341
<u>Internal Service Fund</u>				
Rental equipment	\$ 2,401,190	\$ 103,980	\$ 34,250	\$ 2,470,920
Less accumulated depreciation	(1,682,326)	(150,737)	(34,250)	(1,798,813)
Total Internal Service Fund	\$ 718,864	\$ (46,757)	\$ 0	\$ 672,107
Total Governmental Activities	\$ 5,472,353	\$ (210,905)	\$ 0	\$ 5,261,448
<u>Proprietary Activities</u>				
<u>Major Funds</u>				
Water Utility Fund:				
Land and land rights	\$ 38,701			\$ 38,701
Water production and distribution plant	7,234,383	\$ 3,944		7,238,327
	\$ 7,273,084	\$ 3,944		\$ 7,277,028
Less accumulated depreciation	(3,296,299)	(107,509)		(3,403,808)
Construction in progress	107,800	344,910		452,710
Net	\$ 4,084,585	\$ 241,345	\$ 0	\$ 4,325,930
Sewer Utility Fund:				
Land and land rights	\$ 7,600			\$ 7,600
Sewage transmission	2,797,034	\$ 10,506		2,807,540
	\$ 2,804,634	\$ 10,506		\$ 2,815,140
Less accumulated depreciation	(932,591)	(63,666)		(996,257)
Construction in progress		139,705		139,705
Net	\$ 1,872,043	\$ 86,545	\$ 0	\$ 1,958,588

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS (CONTINUED)

	Balance at July 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2006</u>
<u>Proprietary Activities (Continued)</u>				
<u>Nonmajor Fund</u>				
Pat O'Donnell Civic Center				
Operations Fund:				
Civic Center building and				
equipment	\$ 1,198,015	\$ 5,345		\$ 1,203,360
Less accumulated depreciation	<u>(588,034)</u>	<u>(45,984)</u>		<u>(634,018)</u>
Net	\$ <u>609,981</u>	\$ <u>(40,639)</u>		\$ <u>569,342</u>
Total Proprietary Funds Activities	\$ <u>6,566,609</u>	\$ <u>287,251</u>	\$ 0	\$ <u>6,853,860</u>
TOTAL PRIMARY GOVERNMENT	\$ <u>12,038,962</u>	\$ <u>76,346</u>	\$ 0	\$ <u>12,115,308</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F – CAPITAL ASSETS (CONTINUED)

At June 30, 2006, the Water Utility Fund and Sewer Utility Fund had various construction projects in progress. Costs accumulated on these projects as of June 30, 2006, was \$452,710 for the Water Utility Fund and \$139,705 for the Sewer Utility Fund. The Utility Funds construction in progress includes a joint project estimated to cost \$600,000. Cost accumulated as of June 30, 2006, were \$558,819. Estimated cost to complete this project is \$41,181 and will be completed during the year ending June 30, 2007. This project is financed by a \$400,000 federal grant and \$200,000 financed from operations.

NOTE G – LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Balance at July 1, <u>2005</u>	<u>Increase</u>	<u>Decrease</u>	Balance at June 30, <u>2006</u>	Amount Due Within <u>One Year</u>
PRIMARY GOVERNMENT					
<u>Governmental Activities</u>					
Water Supply and Sewage					
Disposal System bonds	\$ 233,343		\$ 28,284	\$ 205,059	\$ 30,641
General Obligation bonds and notes	1,730,000		180,000	1,550,000	190,000
Promissory notes payable	14,959		2,597	12,362	2,649
Compensated absences	<u>498,928</u>		<u>14,224</u>	<u>484,704</u>	<u>12,360</u>
Total Governmental Activities	\$2,477,230	\$ 0	\$ 225,105	\$ 2,252,125	\$ 235,650
<u>Proprietary Activities</u>					
Water Supply and Sewage Disposal					
System Revenue Bonds	\$ 261,657		\$ 31,716	\$ 229,941	\$ 34,359
General obligation limited tax bonds	1,725,000		90,000	1,635,000	95,000
Promissory note payable	112,793		12,256	100,537	12,504
Compensated absences	<u>188,982</u>		<u>4,373</u>	<u>184,609</u>	
Total Proprietary Activities	\$2,288,432	\$ 0	\$ 138,345	\$ 2,150,087	\$ 141,863
<u>Internal Service Fund</u>					
Equipment contracts payable	\$ 61,094	\$ 68,674	\$ 31,698	\$ 98,070	\$ 31,126
Note payable	266,000		20,000	246,000	20,000
Promissory note payable	16,968		2,866	14,102	2,924
Compensated absences	<u>46,051</u>	<u>9,520</u>		<u>55,571</u>	
Total Internal Service Fund	\$ 390,113	\$ 78,194	\$ 54,564	\$ 413,743	\$ 54,050
TOTAL PRIMARY GOVERNMENT	<u>\$5,155,775</u>	<u>\$ 78,194</u>	<u>\$ 418,014</u>	<u>\$ 4,815,955</u>	<u>\$ 431,563</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – LONG-TERM DEBT (CONTINUED)

Water Supply and Sewage Disposal System bonds total \$435,000 and are further explained in Note H below. The portion included in governmental activities, \$205,059, represents the balance to be repaid with funds other than Water Utility Fund and Sewer Utility Fund revenues. The remaining balance of \$229,941 is accounted for in the Water Utility Fund and Sewer Utility Fund.

Compensated Absences

The City has reported a \$484,704, \$184,609 and \$55,571 liability for accumulated unpaid vacation, sick pay and personal leave and related fringe benefits in its governmental, proprietary and internal service activities, respectively at June 30, 2006.

The City reports the accumulated absence liability for governmental fund employees in the governmental activities and proprietary fund employees as a liability in the business-type activities in the government-wide financial statements. Amounts expected to be paid to employees within sixty days of year end are recorded as a liability in the financial statements of the fund which will pay for the accumulated absences in the fund-based financial statements.

Following is a summary of employment policies related to accumulated absences:

General City Operations - For employees hired on or before July 1, 1994, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon death or retirement, employees receive all unused sick leave and are paid at their current rate of pay. Upon termination other than death or retirement, employees receive 50 percent of unused sick leave.

For employees hired after July 1, 1994, sick leave is earned at 1-1/12 days per month, with 800 hours maximum accumulation. Employees receive 50 percent of unused sick leave upon termination, including death or retirement.

Vacation leave is earned at varying rates, depending upon length of service. At termination, employees receive all unused vacation leave and are paid at their current rate of pay.

Public Safety Officers - For employees hired on or before April 1, 1995, sick leave is earned at 1-1/12 days per month, with 2,080 hours maximum accumulation. Upon termination after 10 years of service, retirement or death, employees are paid for all accumulated sick leave at their current rate of pay.

For employees hired after April 1, 1995, sick leave accumulation is unlimited. Upon termination, employees are paid for up to 800 hours of accumulated sick leave at 50 percent of their current rate of pay.

Other Fringe Benefits - Included in accumulated absences liability are the related social security and retirement costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

The aggregate amounts of long-term debt principal and interest maturities (excluding accumulated sick leave payable) for the five years ending June 30, 2011, and in five-year increments there after until maturity are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 419,203	\$ 200,567	\$ 619,770
2008	446,239	179,168	625,407
2009	468,614	156,233	624,847
2010	453,541	132,241	585,782
2011	372,355	108,236	480,591
2012-2016	1,561,119	279,178	1,840,297
2017-2021	<u>370,000</u>	<u>28,203</u>	<u>398,203</u>
	<u>\$ 4,091,071</u>	<u>\$ 1,083,826</u>	<u>\$ 5,174,897</u>

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE

Gogebic County Water Supply System No. 1 Bonds, Series 1990

On August 1, 1990, Gogebic County, Michigan, issued \$370,000 of Gogebic County Water Supply System No. 1 (City of Ironwood) Bonds, Series 1990, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by National City Bank. U.S. Bank is acting as the paying agent.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Water Supply System No. 1 Bonds, Series 1990 (Continued)

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Water Utility Fund. The portion of bond proceeds used for street improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	7.30%	\$ 25,000	\$ 10,133	\$ 35,133
2008	7.30%	30,000	8,125	38,125
2009	7.40%	30,000	5,920	35,920
2010	7.40%	30,000	3,700	33,700
2011	7.40%	<u>35,000</u>	<u>1,295</u>	<u>36,295</u>
		<u>\$ 150,000</u>	<u>\$ 29,173</u>	<u>\$ 179,173</u>

At June 30, 2006, outstanding bonds payable were accounted for as follows:

Water Utility Fund	\$ 79,290
Governmental activities	<u>70,710</u>
	<u>\$ 150,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Gogebic County Sewage Disposal System No. 1 Bonds, Series 1991

On August 1, 1991, Gogebic County, Michigan, issued \$600,000 of Gogebic County Sewage Disposal System No. 1 (City of Ironwood) Bonds, Series 1991, to finance a Department of Public Works capital outlay project. The bonds are limited tax general obligation bonds issued under provisions of Act 185, Public Acts of Michigan, 1957, as amended, and are payable primarily from the proceeds of certain specified contractual payments to be made to Gogebic County by City of Ironwood, pursuant to a contract referred to in the bonds. The City has pledged its full faith and credit for the payment of its contractual payments. All of the bonds were purchased by Roney & Co., Detroit, Michigan. Wells Fargo Bank is acting as the paying agent.

The City is accounting for a portion of these bonds and the related assets paid for, in part, from proceeds of the bonds in its Sewer Utility Fund. The portion of bond proceeds used for street and drainage improvements is being accounted for in its governmental activities.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	7.00%	\$ 40,000	\$ 18,707	\$ 58,707
2008	7.00%	40,000	15,908	55,908
2009	7.05%	45,000	12,921	57,921
2010	7.05%	50,000	9,573	59,573
2011	7.10%	55,000	5,857	60,857
2012	7.10%	<u>55,000</u>	<u>1,953</u>	<u>56,953</u>
		<u>\$ 285,000</u>	<u>\$ 64,919</u>	<u>\$ 349,919</u>

At June 30, 2006, outstanding bonds payable were accounted for as follows:

Sewer Utility Fund	\$ 150,651
Governmental activities	<u>134,349</u>
	<u>\$ 285,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

1995 General Obligation Unlimited Tax Bonds

On July 18, 1995, City of Ironwood issued \$2,000,000 of 1995 General Obligation Unlimited Tax Bonds to be used to finance the costs of renovating the Memorial Building.

The bonds are issued under the authority of Act 279, Michigan Public Acts of 1909, as amended, and Act 202, Michigan Public Acts of 1943, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from ad valorem taxes which may be levied on all taxable property within the boundaries of the City without limitation as to rate or amount for such purpose. Bonds maturing in the years 2008 to 2015 are callable. All of the bonds were purchased by Kemper Securities, Inc. U.S. Bank is acting as the paying agent.

MBIA Insurance Corporation, the insurer, an operating subsidiary of MBIA, Inc. domiciled in the State of New York, has issued an insurance policy which unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City of an amount equal to the principal and interest on the bonds as such payments shall become due but shall not be so paid. The policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any bond.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	5.20%	\$ 100,000	\$ 63,440	\$ 163,440
2008	5.30%	110,000	58,240	168,240
2009	5.40%	115,000	52,410	167,410
2010	5.50%	120,000	46,200	166,200
2011	5.50%	130,000	39,600	169,600
2012	5.50%	135,000	32,450	167,450
2013	5.50%	145,000	25,025	170,025
2014	5.50%	150,000	17,050	167,050
2015	5.50%	<u>160,000</u>	<u>8,800</u>	<u>168,800</u>
		<u>\$ 1,165,000</u>	<u>\$ 343,215</u>	<u>\$ 1,508,215</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 General Obligation Unlimited Tax Note

On April 20, 1999, the City borrowed \$132,500 from Rural Development Services, Department of Agriculture at an interest rate of 4.75% to purchase a new fire truck. The note requires semiannual interest payments on December 1 and June 1 with principal due December 1.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,000	\$ 2,138	\$ 17,138
2008	15,000	1,426	16,426
2009	<u>15,000</u>	<u>712</u>	<u>15,712</u>
	<u>\$ 45,000</u>	<u>\$ 4,276</u>	<u>\$ 49,276</u>

2000 Michigan Transportation Fund Bonds

On April 10, 2000, City of Ironwood issued \$700,000 of 2000 Michigan Transportation Fund Bonds to be used to finance the costs of street improvements.

The bonds are issued under the authority of Act 175, Public Acts of Michigan, 1952, as amended. The bonds pledge the full faith and credit of the City for payment of the principal and interest thereon and are payable from its general funds, including the levy of ad valorem taxes on all taxable property within the boundaries of the City. Bonds maturing in years 2009 and 2010 shall be subject to redemption prior to maturity, at the option of the City, on any interest payment date on or after April 1, 2008 at par. All of the bonds were purchased by Raymond James & Associates. U.S. Bank is acting as the paying agent.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	5.00%	\$ 75,000	\$ 17,285	\$ 92,285
2008	5.00%	80,000	13,535	93,535
2009	5.00%	90,000	9,535	99,535
2010	5.30%	<u>95,000</u>	<u>5,035</u>	<u>100,035</u>
		<u>\$ 340,000</u>	<u>\$ 45,390</u>	<u>\$ 385,390</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1997 Sewage Disposal System Revenue Bonds

On June 12, 2000, City of Ironwood assumed the obligation of Township of Erwin, Michigan, to pay \$65,000 of outstanding 1997 Sewage Disposal System Revenue bonds issued June 11, 1997, in exchange for ownership in sewage disposal system assets owned by Township of Erwin.

The bonds were purchased by Michigan Municipal Bond Authority and are payable from revenues generated by the Sewage Disposal System. If net revenues are not available, the Issuer shall be required to pay such amounts from its general funds and levy an ad valorem tax on all taxable property in the Township of Erwin. The Township also pledged as additional security, its State of Michigan Revenue Sharing monies.

A summary of the annual principal and interest requirements to maturity follows:

Year ending June 30,	Rate of Interest	Principal	Interest	Total
2007	4.85%	\$ 5,000	\$ 1,651	\$ 6,651
2008	4.90%	5,000	1,407	6,407
2009	4.95%	5,000	1,161	6,161
2010	5.05%	5,000	911	5,911
2011	5.15%	5,000	657	5,657
2012	5.25%	5,000	396	5,396
2013	5.30%	<u>5,000</u>	<u>133</u>	<u>5,133</u>
		<u>\$ 35,000</u>	<u>\$ 6,316</u>	<u>\$ 41,316</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Sewage Disposal System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$165,000 of Sewage Disposal System Revenue Bonds, Series 2000, to be used to finance improvements to its sewage disposal system.

The bonds are issued under the authority of Act 94, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Sewage Disposal System Fund. All of the bonds were purchased by Raymond James & Associates. U.S. Bank is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	6.00%	\$ 5,000	\$ 9,355	\$ 14,355
2008	6.00%	5,000	9,055	14,055
2009	6.00%	5,000	8,755	13,755
2010	6.00%	5,000	8,455	13,455
2011	6.00%	5,000	8,155	13,155
2012	6.00%	5,000	7,855	12,855
2013	6.00%	10,000	7,555	17,555
2014	6.00%	15,000	6,955	21,955
2015	6.00%	15,000	6,055	21,055
2016	6.00%	15,000	5,155	20,155
2017	6.05%	15,000	4,255	19,255
2018	6.05%	15,000	3,348	18,348
2019	6.10%	20,000	2,440	22,440
2020	6.10%	<u>20,000</u>	<u>1,220</u>	<u>21,220</u>
		<u>\$ 155,000</u>	<u>\$ 88,613</u>	<u>\$ 243,613</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Water Supply System Revenue Bond, Series 2000

On April 1, 2000, City of Ironwood issued \$115,000 of Water Supply System Revenue Bonds, Series 2000, to be used to finance improvements to its water supply system.

The bonds are issued under the authority of Act 194, Public Acts of Michigan, 1933, as amended. The bonds are payable solely from revenues generated by the Water Supply System Fund. All of the bonds were purchased by Raymond James & Associates. U.S. Bank is acting as the paying agent. Bonds maturing in year 2010 and thereafter may be redeemed at the option of the Issuer, on any interest payment date on or after April 1, 2009.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending June 30,</u>	<u>Rate of Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	6.00%	\$ 5,000	\$ 5,190	\$ 10,190
2008	6.00%	5,000	4,890	9,890
2009	6.00%	5,000	4,590	9,590
2010	6.00%	5,000	4,290	9,290
2011	6.00%	5,000	3,990	8,990
2012	6.00%	5,000	3,690	8,690
2013	6.00%	5,000	3,390	8,390
2014	6.00%	5,000	3,090	8,090
2015	6.20%	5,000	2,790	7,790
2016	6.20%	5,000	2,480	7,480
2017	6.20%	5,000	2,170	7,170
2018	6.20%	10,000	1,860	11,860
2019	6.20%	10,000	1,240	11,240
2020	6.20%	<u>10,000</u>	<u>620</u>	<u>10,620</u>
		<u>\$ 85,000</u>	<u>\$ 44,280</u>	<u>\$ 129,280</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1996 Water Supply System Revenue Bonds

On November 13, 1996, the City issued \$995,000 of Water Supply System Revenue Bonds to finance improvements to its water wellfield. The bonds are payable solely from revenues generated by the Water Utility Fund. All of the bonds were purchased by Bernardi Securities, Inc. U.S. Bank is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	Rate of <u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	5.20%	\$ 40,000	\$ 38,855	\$ 78,855
2008	5.30%	40,000	36,755	76,755
2009	5.40%	45,000	34,480	79,480
2010	5.40%	45,000	32,050	77,050
2011	5.40%	50,000	29,485	79,485
2012	5.50%	70,000	26,210	96,210
2013	5.50%	75,000	22,222	97,222
2014	5.60%	80,000	17,920	97,920
2015	5.60%	85,000	13,300	98,300
2016	5.60%	95,000	8,260	103,260
2017	5.60%	<u>100,000</u>	<u>2,800</u>	<u>102,800</u>
		<u>\$ 725,000</u>	<u>\$ 262,337</u>	<u>\$ 987,337</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

1999 Water Supply System Revenue Bonds

On April 1, 1999, the City issued \$900,000 of Water Supply System Revenue Bonds to finance improvements to its water supply system. The bonds are payable solely from revenues generated by the Water Utility Fund. Funding for the bonds came from the Michigan Drinking Water Revolving Fund Loan Program. J.P. Morgan Trust Company, N.A. is acting as the paying agent. The City is accounting for these bonds in the Water Utility Fund. The bonds bear an interest rate of 2.5%.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 40,000	\$ 15,875	\$ 55,875
2008	45,000	14,875	59,875
2009	45,000	13,750	58,750
2010	45,000	12,625	57,625
2011	45,000	11,500	56,500
2012	50,000	10,375	60,375
2013	50,000	9,125	59,125
2014	50,000	7,875	57,875
2015	50,000	6,625	56,625
2016	50,000	5,375	55,375
2017	55,000	4,125	59,125
2018	55,000	2,750	57,750
2019	<u>55,000</u>	<u>1,375</u>	<u>56,375</u>
	<u>\$ 635,000</u>	<u>\$ 116,250</u>	<u>\$ 751,250</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Equipment Contracts Payable

Equipment contracts payable of \$98,070 included in liabilities of the Internal Service Fund consist of installment purchase contracts payable to a bank at rates of interest varying from 4.89% to 5.56%. The obligations are collateralized by security interests in equipment.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 31,126	\$ 4,349	\$ 35,475
2008	32,797	2,678	35,475
2009	24,800	1,166	25,966
2010	<u>9,347</u>	<u>136</u>	<u>9,483</u>
	<u>\$ 98,070</u>	<u>\$ 8,329</u>	<u>\$ 106,399</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE
(CONTINUED)

Note Payable to Rural Development Services

The note payable included in liabilities of the Internal Service Fund consisted of a 4.75% note payable to Rural Development Services, Department of Agriculture, United States of America entered into on November 7, 2001. The note was issued pursuant to Act 99 of the Public Acts of Michigan of 1933, to purchase equipment. The United States of America has no security interest in the equipment purchased. The City pledged to levy ad valorem taxes on all taxable property in the City, together with other funds available, sufficient to pay principal and interest payments when due.

A summary of the annual principal and interest requirements to maturity follows:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 20,000	\$ 11,210	\$ 31,210
2008	20,000	10,260	30,260
2009	25,000	9,191	34,191
2010	25,000	8,004	33,004
2011	25,000	6,816	31,816
2012	25,000	5,629	30,629
2013	25,000	4,441	29,441
2014	25,000	3,254	28,254
2015	25,000	2,066	27,066
2016	<u>31,000</u>	<u>736</u>	<u>31,736</u>
	<u>\$ 246,000</u>	<u>\$ 61,607</u>	<u>\$ 307,607</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - BONDS, NOTES AND EQUIPMENT PURCHASE CONTRACTS PAYABLE (CONTINUED)

Promissory Notes Payable

The promissory notes payable to Northern Lights Revolving Loan Fund operated by the Michigan Technical Education Center (M-TEC) at Bay De Noc Community College included in liabilities of the City's governmental activities, and business-type activities consist of 2% notes payable used for energy improvements. The notes are payable in monthly installments of principal and interest. In addition to these payments, the City is required to remit to M-TEC, one-half of the realized energy savings from the improvements made, subject to a loan agreement.

A summary of the annual principal and interest requirements to maturity follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 18,077	\$ 2,379	\$ 20,456
2008	18,442	2,014	20,456
2009	18,814	1,642	20,456
2010	19,194	1,262	20,456
2011	17,355	881	18,236
2012	14,062	576	14,638
2013	14,097	296	14,393
2014	<u>6,960</u>	<u>71</u>	<u>7,031</u>
	<u>\$ 127,001</u>	<u>\$ 9,121</u>	<u>\$ 136,122</u>

NOTE I - LITIGATION

There are several pending lawsuits in which the City is involved. The City attorney estimates that any potential claims against the City resulting from such litigation, which are not covered by insurance, would not materially affect the financial statements of the City.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J - OPERATING LEASES

The City paid \$6,576 during the year ended June 30, 2006, for equipment rental under operating leases. Minimum future lease obligations under the terms of these leases are:

Year ending:	
June 30, 2007	\$ 4,707
June 30, 2008	1,454
June 30, 2009	<u>969</u>
	<u>\$ 7,130</u>

The City is a lessor of building space in various buildings located within its boundaries. All leases are considered to be operating leases.

NOTE K - PROPERTY TAX ADMINISTRATION FEE

In accordance with Public Act 503 of 1982, the City has established a subsidiary ledger to separately account for costs incurred in the collection, assessment and review of property tax levies. For the year ended June 30, 2006, costs incurred totaled \$67,045, and revenues from charging the administrative fee were \$54,814. Cumulative costs since inception of the subsidiary ledger have exceeded cumulative fees by \$415,355.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L - INTERFUND RECEIVABLES AND PAYABLES

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Any residual balances outstanding between the governmental activities and proprietary activities are reported in the government-wide financial statements as “internal balances”.

The amounts of interfund receivables and payables at June 30, 2006, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 138,451	Neighborhood Preservation Program	\$ 4,800
		Sewer Utility	68,489
		Pat O'Donnell Civic Center	65,162
	<u>\$ 138,451</u>		<u>\$ 138,451</u>
Major Street	206,540	General	206,540
Local Street	187,157	General	187,157
Drug Enforcement	3,688	General	3,688
Cemetery Trust	10,000	General	10,000
Economic Development	3,170	Downtown Ironwood Development Authority	3,170
Water Utility	\$ 92,685	Sewer Utility	\$ 84,426
		General	8,259
	<u>\$ 92,685</u>		<u>\$ 92,685</u>
Internal Service	\$ 437,530	Major Street	\$ 204,033
		Local Street	186,020
		Cemetery	47,477
	<u>\$ 437,530</u>		<u>\$ 437,530</u>
	<u>\$ 1,079,221</u>		<u>\$ 1,079,221</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M - INTERFUND TRANSFERS

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Interfund transfers for the year ended June 30, 2006, were made from the General Fund to Special Revenue Funds in the net amount of \$352,212 and in the net amount of \$124,000 to the Retiree Healthcare Fund.

NOTE N - RESTRICTION OF NET ASSETS AND RESERVATION OF FUND BALANCE

Following is a summary of restricted net assets for individual funds at June 30, 2006:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Restriction</u>
<u>Primary Government</u>		
Governmental Activities:		
Special Revenue Fund -		
Major Street Fund	Debt service	\$ 28,956
Debt Service Fund	Debt service	<u>32,673</u>
		\$ 61,629
Business-type Activities:		
Water Utility	Bond reserve and redemption	\$ 233,846
Sewer Utility	Bond reserve and redemption	<u>26,011</u>
		\$ 259,857
		<u>\$ 321,486</u>

Following is a summary of reserved fund balance for individual governmental funds for purposes of the Combined Balance Sheet:

<u>Fund</u>	<u>Purpose</u>	<u>Amount of Reserve</u>
<u>Primary Government</u>		
Governmental Activities:		
General Fund	Inventory, prepaid expenses and special projects	\$ 135,077
Special Revenue Fund:		
Library Fund	Building	76,567
Economic Development Fund	Long-term portion of notes receivable	499,441
Major Street Fund	Debt service	28,956
Debt Service Fund	Debt service	<u>32,673</u>
		<u>\$ 772,714</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O - SEGMENT INFORMATION FOR BUSINESS-TYPE ACTIVITIES

The City maintains three Enterprise Funds. Services provided include water, sewer and garbage and civic center operations. Segment information not presented in the basic financial statements for the year ended June 30, 2006, was as follows:

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Pat O'Donnell Civic Center Operations</u>
Tax revenues	\$ 0	\$ 0	\$ 71,447
Current capital contributions	231,739	71,216	0
Land, buildings and equipment:			
Additions	348,854	150,211	5,345
Deletions	0	0	0

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY

Gogebic-Iron Wastewater Authority (the Authority) was organized in 1983 to finance and construct a regional wastewater treatment plant and sewer system (the Project). Members of the Authority are City of Ironwood and one local township. Construction of the Project was financed principally by federal and state grants and loans to the Authority. The participating local units of government provided financing in the forms of pass-through of federal and state grants and loans and direct investment. At June 30, 2006, the City's investment in the Authority consisted of the following:

Pass-through of state grants to Authority	\$ 427,303
Share of costs not eligible for funding by federal and state grants and organizational expenses paid to Authority	1,553,866
Cumulative share of net income of Authority	<u>648,347</u>
	<u>\$ 2,629,516</u>

The City is accounting for its investment in the Authority by the equity method in the Sewer Utility Fund. The cumulative share of net income of the Authority includes the City's share of net income through June 30, 2003. Upon the adoption of GASB Statement No. 34 by the Authority during the year ended June 30, 2004, the City has determined the change in the Authority's net assets does not reflect a realistic method of increasing or decreasing its investment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P - INVESTMENT IN GOGEBIC-IRON WASTEWATER AUTHORITY (CONTINUED)

The Authority owns the Project; however, the Project is being operating and managed by an autonomous Gogebic-Iron Wastewater Board (the Board) which is comprised of members of the Authority and City of Hurley, Wisconsin. Upon payment in full of revenue bonds issued by the Authority, title to the wastewater treatment plant will pass from the Authority to the Board. Each member of the Board will then own, in common, an undivided interest therein. Title to the collection sewer system lying within the boundaries of each local governmental unit will pass to that unit.

Condensed financial information as of and for the year ended June 30, 2006, from the Authority's most recently audited financial statements, which are available at the Authority's administrative office at 700 West Cloverland Drive, Ironwood, Michigan, follows:

	<u>Gogebic-Iron Wastewater Authority Board</u>		Totals (Memorandum Only)
Total assets	<u>\$ 16,602,319</u>	<u>\$ 90,567</u>	<u>\$ 16,692,886</u>
Total liabilities	<u>\$ 4,593,514</u>	<u>\$ 90,567</u>	<u>\$ 4,684,081</u>
Net assets	<u>\$ 12,008,805</u>	<u>\$ 0</u>	<u>\$ 12,008,805</u>
Operating revenues	\$ 1,415,418	\$ 748,012	\$ 2,163,430
Operating expenses	<u>1,648,312</u>	<u>749,174</u>	<u>2,397,486</u>
	\$ (232,894)	\$ (1,162)	\$ (234,056)
Net decrease in the fair value of investments	(9,296)		(9,296)
Interest charges, net of investment earnings	(149,583)	1,162	(148,421)
Loss on disposal of equipment	<u>(19,386)</u>		<u>(19,386)</u>
Change in Net Assets	\$ (411,159)	\$ 0	\$ (411,159)
Net assets at July 1, 2005	<u>12,419,964</u>	<u>0</u>	<u>12,419,964</u>
NET ASSETS AT JUNE 30, 2006	<u>\$ 12,008,805</u>	<u>\$ 0</u>	<u>\$ 12,008,805</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q - SUMMARY OF 2005 TAX LEVY

Details of the City's 2005 property tax levy (excluding industrial facilities tax) are as follows:

City:		
General Fund	\$	1,349,228
Civic Center		70,273
Library Fund		67,083
Public Safety Retirement System Fund		295,131
Debt Service Fund		154,585
Downtown Ironwood Development Authority		<u>11,608</u>
	Total City Taxes	\$ 1,947,908
School		821,630
County		768,838
State Education Tax		421,639
Intermediate School District		<u>235,260</u>
	Total Levy	\$ <u>4,195,275</u>
TAXABLE VALUATION		<u>\$ 70,270,537</u>
Tax rate per \$1,000 valuation:		
General Fund	\$	19.2000
Civic Center		1.0000
Library Fund		0.9549
Public Safety Retirement System Fund		4.2000
Debt Service Fund		<u>2.2000</u>
		<u>\$ 27.5549</u>

NOTE R - RETIREMENT SYSTEMS

The City of Ironwood administers two defined benefit pension plans, the Retirement System and Public Safety Retirement System. Each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

Summary of Significant Accounting Policies

Basis of Accounting - City of Ironwood's retirement financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due, and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Retirees and beneficiaries receiving benefits	55	28
Terminated plan members entitled to but not yet receiving benefits	2	0
Active plan members:		
Vested	28	2
Nonvested	<u>20</u>	<u>12</u>
Total	<u>105</u>	<u>42</u>
Number of participating employers	<u>1</u>	<u>1</u>

Retirement System Pension Plan

Plan Description - Retirement System is a single-employer defined benefit pension plan that covers the employees of the City of Ironwood, including all departments and agencies, other than Public Safety personnel. Retirement System provides retirement, disability and death benefits to plan members and their beneficiaries. City ordinance assigns the authority to establish and amend the benefit provisions of the plan to the City Commission.

Contributions - Plan members are required to contribute 3% of the first \$4,200 of annual compensation plus 5% of compensation in excess of \$4,200. The City is required to contribute at an actuarially determined rate and contributed \$183,154 for the year ended June 30, 2006. Administrative costs of Retirement System are financed through contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Retirement System Pension Plan (Continued)

All City full-time employees, other than Public Safety personnel, are eligible to participate in the System. Employees who retire at or after age 60 with 10 years of credited service or age 55 with 20 or more years of service are entitled to an annual retirement benefit, payable monthly for life, equal to total service years times 2.25% of the final average compensation. Effective for employees who retire after January 1, 1990, the annual retirement benefit is equal to total service years times 2.25% of the final average compensation. Final average compensation is the average of the employee's highest five consecutive years out of the last ten.

Benefits fully vest on reaching 10 years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 10 years of credited service. Benefits begin at the age member would have been eligible using credited service at time of termination. Employees are eligible for a duty disability retirement provided workers' compensation is paid. Minimum benefit is 15% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 10 years of credited service. Benefits are computed the same as for a regular retirement. Death benefits are payable upon attaining age 55 with 10 years of credited service. Benefits are computed the same as for a regular retirement but actuarially reduced in accordance with a joint and survivor election.

Public Safety Retirement System Pension Plan

Plan Description - Public Safety Retirement System is a single-employer defined benefit pension plan that covers Public Safety personnel. Public Safety Retirement System provides retirement, disability and death benefits to plan members. City ordinance assigns the authority to establish and amend benefit provisions to the City Commission.

The Public Safety Retirement System Fund's eligibility and vesting provisions are in accordance with State of Michigan Public Act 345, PA of 1937. Employees are eligible to receive retirement benefits at age 50 with 25 or more years of service or age 60, regardless of service. The annual retirement benefit is equal to 2.5% of the employee's final average compensation (average of highest three years out of the final ten years) times number of years of service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

Public Safety Retirement System Pension Plan (Continued)

Benefits fully vest on reaching ten years of service. The System also provides death and disability benefits. Benefits are established by State statute. Employees are eligible for deferred retirement upon completion of 10 years of credited service. Benefits begin on the date retirement would have occurred had the member remained in employment. Employees are eligible for a duty disability retirement payable upon the total and permanent disability in the line of service. Benefits are 50% of final average compensation. Employees are eligible for a non-duty disability retirement upon completion of 5 or more years of credited service. Benefits are 1.5% of final average compensation times years of credited service. Death benefits are payable to employees' survivors upon the death of a retired member receiving a pension based upon actuarially determined amounts.

Contributions - Plan members are required to contribute 5% of their annual covered salary if hired on or before July 1, 1995. Employees hired after July 1, 1995, are required to contribute 9% of their salary. The City is required to contribute at an actuarially determined rate and contributed \$218,089 for the year ended June 30, 2006. Administrative costs of Public Safety Retirement System are financed through contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) --Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	(AAL) UAAL as a Percentage of Covered Payroll ((b - a)/c)
RETIREMENT SYSTEM						
June 30, 2003	\$6,088,814	\$7,075,755	\$ 986,941	86%	\$ 1,591,565	62%
June 30, 2004	5,993,981	7,195,718	1,201,737	83	1,579,626	76
June 30, 2005	5,933,627	7,794,401	1,860,774	76	1,652,278	113
PUBLIC SAFETY RETIREMENT SYSTEM						
June 30, 2003	\$5,178,668	\$6,494,723	\$1,316,055	80%	\$ 549,091	240%
June 30, 2004	5,014,778	7,424,805	2,410,002	68	476,568	506
June 30, 2005	4,857,929	7,633,782	2,775,853	64	560,638	495

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Retirement System		Public Safety Retirement System	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	\$101,121	100%	\$165,333	100%
2004	62,823	100	78,250	100
2005	118,716	100	180,486	100

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R - RETIREMENT SYSTEMS (CONTINUED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percent open	Level percent closed (accumulated gains and losses amortized over open period)
Remaining amortization period	30 years	
Single equivalent amortization period		26 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return *	7%	7%
Projected salary increases *	8% - 4.2%	8% - 4.2%
* Includes inflation at	4%	4%
Cost-of-living adjustments	None	None

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S - POST-EMPLOYMENT HEALTH BENEFITS

Employees Covered by Retirement System

As part of the pension benefits described in Note R, the City provides post-employment health care benefits in accordance with a resolution adopted by the City Commission, to all employees who retire from the City, up to age 65, retiring prior to March 8, 2004, under the following terms. General employees who retire on or after attaining age 55 but before attaining age 60 shall be eligible for retiree only coverage and employees who retire on or after attaining age 60 shall be eligible for retiree coverage and coverage of a spouse to whom the retiree is married on the date of his or her retirement from the City. Employees hired on or after March 8, 2004, will not be eligible for this coverage. Public Safety employees who retire will receive health care benefits for the ages of 50 to 65. The City contributions are financed on an actuarially determined basis through annual contributions to the Retiree Healthcare Fund. Separate financial statements are prepared for the post-employment health benefits. The same significant actuarial assumptions, accounting policies and methods used to value investments are used to determine the City's contributions as explained in Note R.

Eligible membership consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

	<u>Retirement System</u>	<u>Public Safety Retirement System</u>
Retirees and beneficiaries receiving benefits	9	14
Terminated plan members entitled to but not yet receiving benefits	2	0
Active plan members	<u>44</u>	<u>14</u>
	<u>55</u>	<u>28</u>

The City of Ironwood is required to provide periodic contributions to the plans at actuarially determined rates. Plan members are not required to contribute to the plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE T - DEFERRED COMPENSATION PLANS

The City offers its employees a choice of several deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Plans are available to substantially all full-time employees and permit employees to defer a portion of their salary until future years. Participation in the Plans is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the Plan and all income attributable to those amounts are, until paid or made available to the employee or other beneficiary, to be held in a trust for the exclusive benefit of plan participants and their beneficiaries.

Investments are managed by the Plans' trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. Plan trustees include Edward Jones, PEBSCO and ICMA Retirement Corporation.

Because the City does not have an established trust agreement with the Plan trustees, does not provide investment advice and does not administer the Plan, the City has not established a fiduciary relationship with the Plan. Therefore, the Plan assets are not included in the financial statements of the City.

NOTE U - RISK MANAGEMENT

Risks of Loss

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims and workers' compensation claims and participates as a member in the Michigan Municipal Risk Management Authority (MMRMA) for claims relating to general liability, excess liability, auto liability, truck line liability, errors and omissions and physical damage to equipment, buildings and contents.

The MMRMA operates as a public entity risk-sharing pool for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City is sharing risk with the other members of the MMRMA and has a self-insurance retention, excess of deductibles, of up to \$75,000. The deductible is \$250 per occurrence for auto, property and crime losses. MMRMA provides, after the self-insurance retention, reinsurance up to \$5,000,000 of occurrence-based casualty coverage and property coverage for each incident by internally assuming risks and reinsuring risks through commercial companies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE U - RISK MANAGEMENT (CONTINUED)

Share of Losses

The City's liabilities for its share of losses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities can include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. The City estimates that the potential unpaid and unreported claims do not substantially exceed the amount of self-insurance retention reserves available to pay claims.

The City carries commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE V – COMMITMENT

On June 26, 2006, a \$717,154 contract was awarded for a construction project for the Water and Sewer Utility Funds. The work started after June 30, 2006 and will be financed by a \$400,000 federal grant. The balance will be financed by operations of the utility funds with the Water Utility paying \$202,979 and the Sewer Utility paying \$114,175.

NOTE W – SUBSEQUENT EVENT

The City is planning a paving project on Lowell Street. Work will be done during the year ending June 30, 2007. Total costs are estimated to be \$585,000. This project will be financed by a federal grant of \$281,250, which was received in October 2006. The balance of the project costs of \$303,750, will be financed by the General Fund.

REQUIRED
SUPPLEMENTAL
INFORMATION

BUDGETARY COMPARISON SCHEDULE -

CITY OF

Year ended

	General Fund		
	Original Budget	Final Budget	Actual
Revenues:			
Taxes	\$ 1,431,000	\$ 1,431,000	\$ 1,444,041
Licenses and permits	22,000	22,000	20,689
State grants	923,000	923,000	909,353
Federal grants		6,000	38,785
Charges for services	136,500	136,501	92,258
Interest and rents	131,000	151,000	160,644
Other revenues	<u>40,500</u>	<u>60,500</u>	<u>59,998</u>
Total Revenues	\$ 2,684,000	\$ 2,730,001	\$ 2,725,768
Expenditures:			
Current expenditures:			
Legislative	\$ 25,105	\$ 45,106	\$ 41,808
General government	657,068	641,600	607,581
Public safety	1,071,384	1,059,848	1,057,039
Public works	105,608	123,608	123,273
Recreation and culture	98,975	98,975	88,350
Health and welfare	87,393	101,893	105,156
Other functions	30,250	36,753	42,605
Capital outlay	48,573	64,328	70,289
Debt service	<u>64,000</u>	<u>66,250</u>	<u>64,026</u>
Total Expenditures	\$ 2,188,356	\$ 2,238,361	\$ 2,200,127
Excess (Deficiency) of Revenues Over Expenditures	\$ 495,644	\$ 491,640	\$ 525,641
Other financing sources (uses) - Operating transfers in (out)	<u>(670,644)</u>	<u>(680,644)</u>	<u>(476,212)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (175,000)	\$ (189,004)	\$ 49,429
Fund balance at July 1, 2005	<u>935,465</u>	<u>935,465</u>	<u>935,465</u>
FUND BALANCE AT JUNE 30, 2006	<u>\$ 760,465</u>	<u>\$ 746,461</u>	<u>\$ 984,894</u>

The accompanying notes are an integral part of the
financial statements.

MAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2006

Major Street Fund			Local Street Fund			Neighborhood Preservation Program		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ 620,000	\$ 630,000	\$ 607,713	\$ 222,000	\$ 222,000	\$ 220,502	\$ 562,501	\$ 562,501	\$ 401,874
500	500	1,191				76,310	76,310	60,739
\$ 620,500	\$ 630,500	\$ 608,904	\$ 222,000	\$ 222,000	\$ 220,502	\$ 638,811	\$ 638,811	\$ 462,613
\$ 559,072	\$ 569,072	\$ 498,656	\$ 472,722	\$ 472,722	\$ 450,033	\$ 572,236	\$ 572,236	\$ 392,548
57,950	57,950	42,128	50,400	50,400	44,977	66,575	66,575	70,065
85,000	85,000							
91,000	91,000	90,785						
\$ 793,022	\$ 803,022	\$ 631,569	\$ 523,122	\$ 523,122	\$ 495,010	\$ 638,811	\$ 638,811	\$ 462,613
\$ (172,522)	\$ (172,522)	\$ (22,665)	\$ (301,122)	\$ (301,122)	\$ (274,508)	\$ 0	\$ 0	\$ 0
172,522	172,522		301,122	301,122	274,508			
\$ 0	\$ 0	\$ (22,665)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
51,935	51,935	51,935						
\$ 51,935	\$ 51,935	\$ 29,270	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

OTHER
FINANCIAL
INFORMATION

BALANCE SHEET - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

ASSETS			
Cash		\$	835,352
Receivables:			
Delinquent taxes	\$	90,667	
State of Michigan		402,925	
Special assessments		6,001	
Advances to Housing Commission		47,780	
Other		<u>6,631</u>	
	\$	554,004	
Less allowances for uncollectible accounts		<u>(45,754)</u>	508,250
Due from other funds			138,451
Inventory			53,225
Prepaid expenses			<u>46,852</u>
			<u>\$ 1,582,130</u>

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts payable		\$	66,520
Salaries and fringes			93,119
Undistributed tax collections			21,953
Due other funds			<u>415,644</u>
	Total Liabilities	\$	597,236
Fund balance:			
Reserved for inventory, prepaid expenses and special projects	\$	135,077	
Unreserved		<u>849,817</u>	<u>984,894</u>
			<u>\$ 1,582,130</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Taxes:			
Property taxes	\$ 1,375,000	\$ 1,371,767	\$ (3,233)
Property tax administrative fees	50,000	64,167	14,167
Payment in lieu of taxes	<u>6,000</u>	<u>8,107</u>	<u>2,107</u>
	\$ 1,431,000	\$ 1,444,041	\$ 13,041
City licenses and permits	22,000	20,689	(1,311)
State grants:			
Liquor licenses	\$ 7,000	\$ 6,785	\$ (215)
Sales tax	<u>916,000</u>	<u>902,568</u>	<u>(13,432)</u>
	\$ 923,000	\$ 909,353	\$ (13,647)
Federal grants:			
Election grant	\$ 6,000	\$ 6,035	\$ 35
Giant Hogweed control grant		13,500	13,500
Community Facilities grant	<u></u>	<u>19,250</u>	<u>19,250</u>
	\$ 6,000	\$ 38,785	\$ 32,785
Charges for services - departmental fees and services:			
Public safety	\$ 64,000	\$ 22,003	\$ (41,997)
Tourist park	22,000	18,260	(3,740)
Administration services	38,501	38,100	(401)
Sale of supplies and services	<u>12,000</u>	<u>13,895</u>	<u>1,895</u>
	\$ 136,501	\$ 92,258	\$ (44,243)
Interest and rents:			
Interest earned	\$ 40,000	\$ 47,976	\$ 7,976
Rentals and leases:			
Memorial building rentals	36,000	39,129	3,129
Garage rentals	63,000	63,308	308
Other	<u>12,000</u>	<u>10,231</u>	<u>(1,769)</u>
	\$ 151,000	\$ 160,644	\$ 9,644

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

	Estimated Revenue	Actual Revenue	Variance Favorable (Unfavorable)
Other revenues:			
Refunds and rebates	\$ 35,000	\$ 31,858	\$ (3,142)
Sale of property and equipment	3,000	7,905	4,905
Special assessments	7,500	7,331	(169)
Miscellaneous	<u>15,000</u>	<u>12,904</u>	<u>(2,096)</u>
	<u>\$ 60,500</u>	<u>\$ 59,998</u>	<u>\$ (502)</u>
TOTAL REVENUES	<u>\$ 2,730,001</u>	<u>\$ 2,725,768</u>	<u>\$ (4,233)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Legislative - City commission	\$ 45,106	\$ 41,808	\$ 3,298
General government:			
City manager	\$ 148,562	\$ 139,939	\$ 8,623
Elections	7,810	5,599	2,211
Financial administration	114,900	114,880	20
Property tax administration	29,650	28,088	1,562
City assessor	41,349	37,397	3,952
Computer department	19,522	19,259	263
City clerk	107,499	106,588	911
Board of review	2,320	1,560	760
City hall and grounds	<u>169,988</u>	<u>154,271</u>	<u>15,717</u>
	\$ 641,600	\$ 607,581	\$ 34,019
Public safety:			
Public safety department	\$ 1,011,748	\$ 1,027,371	\$ (15,623)
Volunteer fire department	<u>48,100</u>	<u>29,668</u>	<u>18,432</u>
	\$ 1,059,848	\$ 1,057,039	\$ 2,809
Public works:			
Sidewalks	\$ 1,100	\$ 611	\$ 489
Street lighting	84,200	85,744	(1,544)
Sanitation	<u>38,308</u>	<u>36,918</u>	<u>1,390</u>
	\$ 123,608	\$ 123,273	\$ 335
Recreation and culture - parks and recreation	98,975	88,350	10,625
Health and welfare:			
Community development	\$ 74,193	\$ 75,780	\$ (1,587)
Code enforcement	<u>27,700</u>	<u>29,376</u>	<u>(1,676)</u>
	\$ 101,893	\$ 105,156	\$ (3,263)

STATEMENT OF APPROPRIATIONS AND EXPENDITURES - GENERAL FUND (CONTINUED)

	Appropriations	Expenditures	Variance Favorable (Unfavorable)
Other functions:			
Insurance and bonds	\$ 24,000	\$ 30,402	\$ (6,402)
Labor relations	6,251	5,205	1,046
Miscellaneous	<u>6,502</u>	<u>6,998</u>	<u>(496)</u>
	\$ 36,753	\$ 42,605	\$ (5,852)
Capital outlay:			
Computer department	\$ 2,328	\$ 2,328	
City hall and grounds	1,000	6,035	\$ (5,035)
Public safety department	33,000	32,251	749
Community development		2,275	(2,275)
City garage	<u>28,000</u>	<u>27,400</u>	<u>600</u>
	\$ 64,328	\$ 70,289	\$ (5,961)
Debt service:			
Bond principal retirement	\$ 47,030	\$ 45,304	\$ 1,726
Interest charges	<u>19,220</u>	<u>18,722</u>	<u>498</u>
	\$ 66,250	\$ 64,026	\$ 2,224
Total Expenditures	\$ 2,238,361	\$ 2,200,127	\$ 38,234
Other financing uses - operating transfers out:			
Major Street Fund	\$ 172,522		\$ 172,522
Local Street Fund	301,122	\$ 274,508	26,614
Retiree Healthcare Fund	124,000	124,000	
Cemetery Fund	58,000	54,990	3,010
Building Inspection Fund	<u>25,000</u>	<u>22,714</u>	<u>2,286</u>
	\$ 680,644	\$ 476,212	\$ 204,432
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,919,005</u>	<u>\$ 2,676,339</u>	<u>\$ 242,666</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET -

CITY OF

June 30,

	Special Revenue Funds			
	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund	Economic Development Fund
ASSETS				
Cash and cash equivalents	\$ 116,716	\$ 6,643	\$ 4,658	\$ 103,284
Investments				
Receivables:				
Accounts	68,006			
Delinquent property taxes	2,187	42		
Notes receivable		3,412		561,857
Due from other funds				3,170
	<u>\$ 186,909</u>	<u>\$ 10,097</u>	<u>\$ 4,658</u>	<u>\$ 668,311</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 2,250	\$ 6		
Due other funds		3,170		
Deferred revenues				
	<u>\$ 2,250</u>	<u>\$ 3,176</u>		
Fund balance:				
Reserved:				
Construction	\$ 76,567			
Debt service				
Long-term portion of notes receivable				\$ 499,441
Unreserved	<u>108,092</u>	<u>\$ 6,921</u>	<u>\$ 4,658</u>	<u>168,870</u>
	<u>\$ 184,659</u>	<u>\$ 6,921</u>	<u>\$ 4,658</u>	<u>\$ 668,311</u>
	<u>\$ 186,909</u>	<u>\$ 10,097</u>	<u>\$ 4,658</u>	<u>\$ 668,311</u>

The accompanying notes are an integral part of the financial statements.

NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

2006

Special Revenue Funds						
Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Building Inspections Fund	Debt Service Fund	Totals
	\$ 19,879	\$ 5,450	\$ 835		\$ 29,162	\$ 286,627
	527,745					527,745
						68,006
					3,511	5,740
\$ 320,000						885,269
	10,000	3,688				16,858
<u>\$ 320,000</u>	<u>\$ 557,624</u>	<u>\$ 9,138</u>	<u>\$ 835</u>	<u>\$ 0</u>	<u>\$ 32,673</u>	<u>\$ 1,790,245</u>
	\$ 147					\$ 2,403
	47,477					50,647
\$ 320,000						320,000
\$ 320,000	\$ 47,624					\$ 373,050
						\$ 76,567
					\$ 32,673	32,673
						499,441
	\$ 510,000	\$ 9,138	\$ 835			808,514
	\$ 510,000	\$ 9,138	\$ 835		\$ 32,673	\$ 1,417,195
<u>\$ 320,000</u>	<u>\$ 557,624</u>	<u>\$ 9,138</u>	<u>\$ 835</u>	<u>\$ 0</u>	<u>\$ 32,673</u>	<u>\$ 1,790,245</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CITY OF

Year ended

	Special Revenue Funds			
	Library Fund	Downtown Ironwood Development Authority	Community Development Block Grant Fund	Economic Development Fund
Revenues:				
Taxes	\$ 68,204	\$ 11,720		
State grants	6,229			
Federal grants			\$ 19,691	
Contributions from local units	13,300			
Fines and forfeits	66,240			
Charges for services	4,874			
Interest and investment earnings		238		\$ 11,452
Other revenues	<u>10,952</u>	<u>837</u>	<u>26,356</u>	<u>7,908</u>
Total Revenues	\$ 169,799	\$ 12,795	\$ 46,047	\$ 19,360
Expenditures:				
Current:				
General government				
Public safety				
Recreation and culture	\$ 140,551			
Health and welfare:				
Community development		\$ 12,575		\$ 15,030
Housing rehabilitation			\$ 34,269	
Other - Administrative and general			<u>7,120</u>	<u>2,650</u>
	\$ 140,551	\$ 12,575	\$ 41,389	\$ 17,680
Capital outlay	28,810			
Debt service:				
Principal	577			
Interest and fees	<u>62</u>			
Total Expenditures	\$ 170,000	\$ 12,575	\$ 41,389	\$ 17,680
Excess (Deficiency) of Revenues Over Expenditures	\$ (201)	\$ 220	\$ 4,658	\$ 1,680
Other financing sources - Operating transfers in				
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	\$ (201)	\$ 220	\$ 4,658	\$ 1,680
Fund balance at July 1, 2005	<u>184,860</u>	<u>6,701</u>	<u>0</u>	<u>666,631</u>
FUND BALANCE AT JUNE 30, 2006	<u>\$ 184,659</u>	<u>\$ 6,921</u>	<u>\$ 4,658</u>	<u>\$ 668,311</u>

The accompanying notes are an integral part of the financial statements.

CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

IRONWOOD, MICHIGAN

June 30, 2006

Special Revenue Funds						Totals
Housing Development Fund	Cemetery Trust Fund	Drug Enforcement Fund	Volunteer Fire Department Fund	Building Inspections Fund	Debt Service Fund	
					\$ 158,004	\$ 237,928
						6,229
						19,691
						13,300
		\$ 250				66,490
\$ 49,360				\$ 11,938		66,172
19,923					4,874	36,487
<u>10,318</u>			<u>\$ 8,075</u>			<u>64,446</u>
\$ 79,601	\$ 250	\$ 8,075	\$ 11,938	\$ 162,878		\$ 510,743
\$ 124,031						\$ 124,031
			\$ 9,538	\$ 34,652		44,190
						140,551
						27,605
						34,269
					\$ 700	10,470
\$ 124,031			\$ 9,538	\$ 34,652	\$ 700	\$ 381,116
560						29,370
					95,000	95,577
					<u>68,309</u>	<u>68,371</u>
<u>\$ 124,591</u>	<u>\$ 0</u>	<u>\$ 9,538</u>	<u>\$ 34,652</u>	<u>\$ 164,009</u>		<u>\$ 574,434</u>
\$ (44,990)	\$ 250	\$ (1,463)	\$ (22,714)	\$ (1,131)		\$ (63,691)
<u>54,990</u>			<u>22,714</u>			<u>77,704</u>
\$ 0	\$ 10,000	\$ 250	\$ (1,463)	\$ 0	\$ (1,131)	\$ 14,013
0	<u>500,000</u>	<u>8,888</u>	<u>2,298</u>	0	<u>33,804</u>	<u>1,403,182</u>
<u>\$ 0</u>	<u>\$ 510,000</u>	<u>\$ 9,138</u>	<u>\$ 835</u>	<u>\$ 0</u>	<u>\$ 32,673</u>	<u>\$ 1,417,195</u>

COMBINING STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

June 30, 2006

	Retirement System Fund	Public Safety Retirement System Fund	Totals
ASSETS			
Cash	\$ 65,559	\$ 113,866	\$ 179,425
Receivables:			
Interest	\$ 12,556	\$ 18,197	\$ 30,753
Delinquent property taxes		<u>4,863</u>	<u>4,863</u>
	\$ 12,556	\$ 23,060	\$ 35,616
Investments:			
U.S. Treasury and agency obligations	\$ 7,564	\$ 420,376	\$ 427,940
Domestic corporate bonds	1,280,901	545,162	1,826,063
Domestic stocks and mutual funds	3,437,073	2,768,665	6,205,738
International mutual funds	838,218	940,517	1,778,735
International corporate bonds		23,685	23,685
Money market funds	<u>76,989</u>	<u>125,825</u>	<u>202,814</u>
	<u>\$ 5,640,745</u>	<u>\$ 4,824,230</u>	<u>\$ 10,464,975</u>
	<u>\$ 5,718,860</u>	<u>\$ 4,961,156</u>	<u>\$ 10,680,016</u>
LIABILITIES			
Accounts payable	<u>\$ 5,403</u>	<u>\$ 5,050</u>	<u>\$ 10,453</u>
NET ASSETS			
Net assets held in trust for pension benefits	<u>\$ 5,713,457</u>	<u>\$ 4,956,106</u>	<u>\$ 10,669,563</u>

A schedule of funding progress for each plan is presented in Note R to the financial statements.

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUNDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Retirement System Fund	Public Safety Retirement System Fund	Totals
Additions:			
Contributions:			
General property taxes		\$ 218,569	\$ 218,569
Employee contributions	\$ 84,248	44,756	129,004
Employer contributions	<u>158,307</u>	<u></u>	<u>158,307</u>
Total Contributions	\$ 242,555	\$ 263,325	\$ 505,880
Investment income:			
Net appreciation in fair value of investments	\$ 162,033	\$ 366,379	\$ 528,412
Interest and dividends	<u>220,109</u>	<u>144,642</u>	<u>364,751</u>
	\$ 382,142	\$ 511,021	\$ 893,163
Less investment expense	<u>(38,960)</u>	<u>(45,929)</u>	<u>(84,889)</u>
Net Investment Income	\$ <u>343,182</u>	\$ <u>465,092</u>	\$ <u>808,274</u>
Total Additions	\$ 585,737	\$ 728,417	\$ 1,314,154
Deductions:			
Retirement benefits	\$ 465,845	\$ 593,392	\$ 1,059,237
Refunds of member contributions	14,387		14,387
Administrative expense	<u>14,252</u>	<u>13,312</u>	<u>27,564</u>
Total Deductions	\$ <u>494,484</u>	\$ <u>606,704</u>	\$ <u>1,101,188</u>
Net Increase	\$ 91,253	\$ 121,713	\$ 212,966
Net assets held in trust for pension benefits at July 1, 2005	<u>5,622,204</u>	<u>4,834,393</u>	<u>10,456,597</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT JUNE 30, 2006	\$ <u>5,713,457</u>	\$ <u>4,956,106</u>	\$ <u>10,669,563</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS - RETIREE HEALTHCARE FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

Additions:

Contributions:

General property taxes	\$	81,490
Transfer from General Fund		124,000
Employer contributions		<u>134,091</u>

Total Contributions \$ 339,581

Deductions:

Post-retirement health care benefits	\$	239,046
Administrative expense		<u>16,537</u>

Total Deductions \$ 255,583

Net Increase \$ 83,998

Net assets held in trust for post-employment
healthcare benefits at July 1, 2005

0

NET ASSETS HELD IN TRUST FOR
POST-EMPLOYMENT HEALTHCARE BENEFITS AT JUNE 30, 2006 \$ 83,998

The accompanying notes are an integral part of the
financial statements.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
TRUST AND AGENCY FUND - CURRENT TAX COLLECTION FUND

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

	Balance at July 1, 2005	Additions	Deductions	Balance at June 30, 2006
ASSETS				
Cash	<u>\$ 1,887</u>	<u>\$ 4,004,632</u>	<u>\$ 4,001,312</u>	<u>\$ 5,207</u>
LIABILITIES				
Due Ironwood Area Schools		\$ 765,743	\$ 765,743	
Due Gogebic County		700,652	700,652	
Due State of Michigan		396,007	396,007	
Due Intermediate School District		217,020	217,020	
Due other funds		1,921,414	1,921,414	
Due other units	<u>\$ 1,887</u>	<u>3,796</u>	<u>476</u>	<u>\$ 5,207</u>
	<u>\$ 1,887</u>	<u>\$ 4,004,632</u>	<u>\$ 4,001,312</u>	<u>\$ 5,207</u>

The accompanying notes are an integral part of the
financial statements.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Catalog of Domestic Assistance Number	Federal Expenditures
PRIMARY GOVERNMENT		
<u>U.S. Department of Agriculture</u>		
Direct - Community Facilities Loans and Grants	10.766	\$ 19,250
<u>U.S. Fish and Wildlife Service</u>		
Direct - Giant Hogweed Control Project No. 2005-0004-027	15.000	13,500
<u>U.S. Department of Housing and Urban Development</u>		
Passed through State of Michigan Department of Commerce - Community Development Block Grant:		
MSC-2004-0072-NPP	14.228	\$ 401,874
MSC-204047-PW	14.228	302,955
MSC-2004-0072-HO	14.239	<u>19,691</u>
		\$ 724,520
<u>U.S. Department of Health and Human Services</u>		
Passed through State of Michigan Department of State - Voting Access for Individuals with Disabilities (Vote) Program	93.617	<u>6,035</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u>763,305</u>

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

-
1. Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Ironwood, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures in this schedule are in agreement with the amounts reported in the financial statements.
 2. Loans Outstanding - City of Ironwood, Michigan, had two loan balances outstanding with U.S. Department of Agriculture at June 30, 2006, for a total of \$291,000.
 3. Subrecipients - Of the federal expenditures presented in the schedule, City of Ironwood, Michigan, provided no federal awards to subrecipients.
 4. All programs are considered Type B programs, except the U.S. Department of Housing and Urban Development Program C.F.D.A. Number 14.228, which was selected as a major program, Type A, using the risk-based audit approach and the 25% low-risk auditee coverage rule.
 5. Component Unit Excluded from Schedule of Expenditures of Federal Awards

Ironwood Housing Commission, a component unit of City of Ironwood, Michigan, contracted to have its own audit for its year ended June 30, 2006. Accordingly, the Schedule of Expenditures of Federal Awards excludes any information pertaining to Ironwood Housing Commission.

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC 2004-0072NPP

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from July 1, 2004 through June 30, 2006

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Rental Rehabilitation	\$ 281,225	\$ 281,225	
NPP Demolition	50,000	50,000	
NPP Public Improvement	150,000	150,000	
NPP Beautification	15,000	15,000	
Home marketing	2,000	2,000	
Administration	<u>109,275</u>	<u>109,275</u>	
	\$ 607,500	\$ 607,500	\$ 0
<u>Other Funds/Sources</u>			
Leverage funds	<u>200,000</u>	<u>249,997</u>	<u>(49,997)</u>
	<u>\$ 807,500</u>	<u>\$ 857,497</u>	<u>\$ (49,997)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC-204047PW

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from April 1, 2005 through June 30, 2006

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Water improvements	\$ 287,200	\$ 274,845	\$ 12,355
Sewer improvements	<u>112,800</u>	<u>71,216</u>	<u>41,584</u>
	\$ 400,000	\$ 346,061	\$ 53,939
<u>Other Funds/Sources</u>			
City Contribution:			
Water Utility	\$ 114,000	144,269	\$ (30,269)
Sewer Utility	<u>21,500</u>	<u>68,189</u>	<u>(46,689)</u>
	\$ 135,500	\$ 212,458	\$ (76,958)
	<u>\$ 535,500</u>	<u>\$ 558,519</u>	<u>\$ (23,019)</u>

STATEMENT OF APPLICATION OF BLOCK GRANT FUNDS - GRANT NO. MSC-2004-0072HO

CITY OF IRONWOOD, MICHIGAN

For the Grant Period from January 1, 2004 through June 30, 2006

	Authorized Costs	Actual Costs	Under (Over)
<u>Activity</u>			
Housing Rehabilitation Grants	\$ 80,000	\$ 80,000	\$ 0
Administration	<u>17,500</u>	<u>17,500</u>	<u>0</u>
	\$ 97,500	\$ 97,500	\$ 0
<u>Other Funds/Sources</u>			
Housing Rehabilitation:			
Homeowner contributions	\$ 20,000	\$ 20,879	\$ (879)
Recapture funds		<u>17,655</u>	<u>(17,655)</u>
	<u>\$ 20,000</u>	<u>\$ 38,534</u>	<u>\$ (18,534)</u>
	<u>\$ 117,500</u>	<u>\$ 136,034</u>	<u>\$ (18,534)</u>

SUPPLEMENTAL
REPORTS

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

301 N. SUFFOLK STREET

IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS

TELEPHONE
906-932-4430

FAX
906-932-0677

EMAIL
jmp@ironwoodcpa.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ironwood, Michigan, as of and for the year ended June 30, 2006, which collectively comprise City of Ironwood, Michigan's basic financial statements and have issued our report thereon dated November 3, 2006. The financial statements do not include financial data for the City of Ironwood's legally separate component unit, Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ironwood, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
November 3, 2006

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

301 N. SUFFOLK STREET

IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.

W. J. JOKI, C.P.A.

A. R. POLLACK, C.P.A., C.S.E.P.

MEMBERS

**TELEPHONE
906-932-4430**

**FAX
906-932-0677**

**EMAIL
jmp@ironwoodcpa.com**

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

Compliance

We have audited the compliance of City of Ironwood, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. City of Ironwood, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements do not include financial data for the City of Ironwood's legally separate component unit, Ironwood Housing Commission, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City of Ironwood, Michigan's primary government. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Ironwood, Michigan's management. Our responsibility is to express an opinion on City of Ironwood, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Ironwood, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Ironwood, Michigan's compliance with those requirements.

In our opinion, City of Ironwood, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Ironwood, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Ironwood, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joti, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
November 3, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Ironwood, Michigan. However, the financial statements do not include financial data for the City of Ironwood, Michigan's legally separate component unit, Ironwood Housing Commission.
2. There were no reportable conditions disclosed during the audit of the financial statements reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Ironwood, Michigan, were disclosed during the audit.
4. There were no reportable conditions disclosed during the audit of the major federal award programs reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Ironwood, Michigan, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for City of Ironwood, Michigan, to be reported in Part C of this schedule.
7. The programs tested as major programs are the Community Development Block Grant programs, C.F.D.A. Number 14.228.
8. The threshold for distinguishing Type A programs was \$300,000. All programs were considered to be Type B programs, except the major program.
9. City of Ironwood, Michigan, was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

There were no reportable conditions disclosed during the financial statements audit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no findings and questioned costs related to the federal award programs.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

CITY OF IRONWOOD, MICHIGAN

Year ended June 30, 2006

There were no findings or questioned costs relative to federal awards during the prior year audit.

JOKI, MAKELA & POLLACK, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
301 N. SUFFOLK STREET
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.
W. J. JOKI, C.P.A.
A. R. POLLACK, C.P.A., C.S.E.P.
MEMBERS

TELEPHONE
906-932-4430
FAX
906-932-0677
EMAIL
jmp@ironwoodcpa.com

To the Mayor and Members of the Commission
City of Ironwood
Ironwood, Michigan

We have compiled the Annual Local Unit Fiscal Report - Form F-65 (MI) of City of Ironwood, Michigan, for the year ended June 30, 2006, included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the State of Michigan Department of Treasury information that is the representation of management. We have not audited or reviewed the financial statement referred to above and, accordingly, do not express an opinion or any other form of assurance on it.

This financial statement is presented in accordance with the requirements of the State of Michigan Department of Treasury, which differ from generally accepted accounting principles. Accordingly, this financial statement is not designed for those who are not informed about such differences.

Joki, Makela & Pollack, PLLC

Certified Public Accountants

Ironwood, Michigan
November 3, 2006